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# FINANCIAL TIMES

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WEDNESDAY APRIL 28 1999

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## WORLD NEWS

### Clinton calls for curbs on sales of guns and explosives

US president Bill Clinton sought to capitalise on public outrage at last week's school massacre in Colorado by proposing legislation to restrict purchases of guns and explosives. Page 18

**UK seeks to cut red tape**
The UK is to press for an overhaul of the regulatory process in the European Commission as part of its drive against excessive bureaucracy. **Britain, Page 8**

**Finnish president to step down**
Finnish president Martti Ahtisaari signalled his departure as head of state by withdrawing from presidential primaries for the ruling Social Democratic party. **Europe, Page 3**

**UK call to block EU food imports**
An agriculture policy paper issued by Britain's opposition Conservative party included a threat to block food imports from European Union countries which failed to meet British welfare standards. **Britain, Page 8**

**WHO urges tobacco regulation**
World Health Organisation director-general Gro Harlem Brundtland called for tobacco products to be regulated like other drugs. **International, Page 6**

**Bid to aid environment**
US environmental groups released a paper suggesting proposals to ensure that environmental and health laws were not undermined by trade goals. **World trade, Page 4**

**Seoul threatens big businesses**
South Korea said it would toughen sanctions against the five top conglomerates if they failed to restructure, including forcing some units into receivership. **Asia-Pacific, Page 4; Taming the titans, Page 16**

**Search for Irish graves agreed**
The UK and Irish governments agreed to set up an independent panel to locate graves of victims of the Irish Republican Army. **Britain, Page 8**

**Steelworkers prepare for talks**
US steelworkers' union leaders met in Pittsburg to hammer out their final negotiating position ahead of national contract talks. **US, Page 7**

**Referendum date for East Timor**
Indonesian president B.J. Habibie told Australian prime minister John Howard that a referendum on East Timorese autonomy would be held on August 8. **Asia-Pacific, Page 4**

**Far right seeks European voice**
The far right British National party is mounting its biggest campaign yet for the European parliamentary elections on June 9. **Britain, Page 8**

**Anwar to face further charge**
Malaysian prosecutors pressed ahead with one of six remaining charges against former deputy prime minister Anwar Ibrahim, already convicted on four counts of abuse of power. **Asia-Pacific, Page 4**

**Militants end armed campaign**
Egypt's largest Islamist guerrilla group aims to increase political pressure on the government after abandoning an eight-year military campaign. **International, Page 6**

## BUSINESS NEWS

### Sony's PlayStation console faces fall in global sales

Sony Music Entertainment, music and computer games subsidiary of the Japanese group, warned that sales of the games console PlayStation would fall this year after four years of phenomenal growth. **Companies and markets, Page 19**

**Walt Disney** shares fell almost 5 per cent in morning trading after the entertainment group warned of lower profits for the full year and reported income down 30 per cent in the second quarter to $269m. **Companies and markets, Page 19**

**Credit Suisse** has hired western lawyers to conduct an internal investigation into whether some of its Tokyo employees have obstructed Japanese regulators. **Asia-Pacific companies, Page 22**

**A British television executive** has turned down a $25m offer to run Microsoft's global internet operation after receiving a counter offer to head a new internet and media investment vehicle for Rupert Murdoch's News Corporation. **Companies and markets, Page 19; Lex, Page 18**

**British Telecom** is joining GratisTel International, the Swedish group behind Europe's first advertising-sponsored telephone service, to offer free calls to customers prepared to listen to commercials during their conversations. **European companies, Page 24**

**Electrolux**, the world's largest household appliances group, dampened expectations of buoyant consumer demand in western Europe by warning of flat or shrinking markets across the region. **European companies, Page 24; Lex, Page 18**

**China** plans to establish an insurance scheme for savings deposits to boost fragile public confidence in the financial sector and enhance the commercial independence of its banks. **Page 18**

**Kingfisher**, the mass market retailer, is joining the ranks of free internet service providers through a link-up with the family holding company of Bernard Arnault, chairman of the LVMH luxury goods group. **UK companies, Page 26**

**Diageo** is putting four leading European drink brands up for sale, as part of the continuing rationalisation of its spirits portfolio to focus on core global brands such as Smirnoff vodka and Johnnie Walker scotch whisky. **UK companies, Page 26**

**LVMH** will have to wait until the end of May to hear the verdict of the Amsterdam court of appeal in the critical legal case it has brought against Gucci, the Italian fashion company with which it is locked in an $8.7bn bid battle. **International companies, Page 25**

**World Equity Markets**
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# Nato members at odds over enforcing Serb oil embargo

By Stefan Wagstyl in London, Neil Buckley in Brussels and Stephen Fidler in Washington

Nato members were last night struggling to avoid a damaging split over their proposals to stop Serbia importing oil, as concern grew about the plan's legal, political and practical difficulties.

Nato is expected to announce details of the ban this week. It was hastily approved in principle at last weekend's Washington summit.

Member governments agreed to try to halt seaborne shipments reaching Yugoslavia through the Adriatic port of Bar in Montenegro – Serbia's main source of oil since imports from the Black Sea via pipelines and the river Danube have been cut off.

However, differences emerged yesterday over implementing the plan, exacerbated by fears about provoking Russia, Serbia's principal oil supplier. The US insisted oil was covered by a 1998 UN resolution banning the supply of arms and military equipment to Serbia. France, Italy and Greece questioned the legality of action under this resolution.

There also seemed to be disagreements within the military over the degree of force permitted in the "visit and search" powers agreed in Washington for ships patrolling the Adriatic.

On Monday, Germany's General Klaus Naumann, head of Nato's military committee, said Nato would have the right to board ships but not to stop them or change their course by force. However, General Wesley Clark, Nato's supreme commander, said yesterday: "Any visit and search regime has of course to have appropriate rules of engagement, to be able to use the threat of force... It has to be an enforcement regime."

Nato ambassadors are expected to discuss the detailed plans today. Meanwhile, Nato has taken heart from the European Union's decision to ban shipments of oil to Yugoslavia from the 15 EU countries and by EU-based companies. The decision, to be implemented by Friday, was reached in spite of reservations from Greece and Italy, the main EU suppliers. Romania and Bulgaria – important oil transit countries – have also announced bans.

However, decisions by Nato members and their allies do not bind Russia or other potential suppliers. US officials take heart from signals from Moscow that Russia does not consider it has vital interests at stake in Serbia, in spite ofRussian rhetoric. Some Nato governments are also concerned about the possible impact of a ban on Montenegro, Serbia's sister republic, which has so far resisted pressure from Belgrade to support Serbia. There are fears that an oil ban could help prompt a pro-Serbian coup.

The US state department said yesterday it was preparing a comprehensive embargo on all exports to Serbia, including oil and other petroleum products but excluding humanitarian supplies.

Defence experts warned that securing Russian acquiescence in the ban was crucial. "The problem is, how do you stop ships from neutral countries which don't wish to be stopped – in particular Russian tankers," said Rear Admiral Richard Cobbold, director of the Royal United Services Institute, a UK think tank.

Kosovo crisis, Page 2
Mr Muscle, Page 16

# Italian banking reform hit by merger rejection

By Paul Betts in Milan

The restructuring of the Italian banking system launched four weeks ago with two merger bids involving the country's largest banks was thrown in doubt yesterday after the Bank of Italy blocked one of the deals.

The central bank's move is expected to have repercussions on attempts to modernise the industry to adapt to economic and monetary union and financial and industrial globalisation.

It is also likely to lead to manoeuvres among Italian banks and insurance companies to forge alliances in a power struggle between the traditional business and financial network of Mediobanca, the secretive Milan investment bank, and a new rival breed of bankers and industrialists.

The Bank of Italy decided to reject a merger bid through an exchange of shares by San Paolo-IMI, Italy's largest bank, for Banca di Roma. The deal would have created an enlarged banking group with total assets of about L550,000bn (€292bn).

The central bank, which regulates the banking industry, blocked the deal after Banca di Roma's board said it considered the bid "hostile and unacceptable", San Paolo-IMI said.

It added that the bid had been refused approval on the grounds that it breached the central bank's policy of agreed or friendly mergers and acquisitions in the industry.

The central bank's stance, at a time of rapid consolidation in the industry, has provoked fierce debate with several leading politicians and bankers calling for banks listed on the stock market to be regulated by Consob, the stock market watchdog.

Mediobanca, fighting to retain its influence, has opposed the tie-up between Banca di Roma and San Paolo-IMI. Instead, it has sought to combine the Rome bank with Banca Commerciale Italiana.

For the same reasons, Mediobanca is seeking to block the other significant merger bid by UniCredito Italiano for BCI to form a group with total assets of more than L500,000bn.

Lex, Page 18

# Weapons makers discuss European missiles merger

By Alexander Nicoll, Defence Correspondent

Three European weapons manufacturers are discussing combining their guided weapons businesses to create the world's largest missile maker after Raytheon of the US.

John Weston, chief executive of British Aerospace, told the FT the company was holding talks with Lagardère of France and Finmeccanica of Italy on bringing their missile interests together into one.

Mr Weston was speaking after BAe and General Electric Company of the UK signed a definitive agreement on BAe's £7.4bn ($11.9bn) acquisition of GEC's Marconi defence interests.

BAe and Lagardère's Matra subsidiary already have a guided weapons joint venture, Matra BAe Dynamics. Both partners are in the process of acquiring new missile interests – Matra is merging with Aerospatiale as part of the latter's privatisation, and Marconi brings to BAe its half share in a venture with Alenia, part of Finmeccanica. Matra BAe Dynamics also has a 30 per cent share in LFK, the missiles subsidiary of DaimlerChrysler Aerospace (Dasa) of Germany. The only other significant European guided weapons business is Short Brothers of Northern Ireland, owned by Bombardier of Canada.

Mr Weston said he believed there were opportunities for consolidation in the European defence and aerospace industry. BAe had made offers for a stake in Casa of Spain and was awaiting a decision from Madrid. But progress on the restructuring of Airbus, the civil aircraft consortium, would have to await completion of the Aerospatiale/Matra merger, Mr Weston added.

Signature of the Marconi deal sets in motion regulatory scrutiny in London, Brussels and Washington. The UK government is expected to invoke an article of the Treaty of Rome under which governments can claim the right to examine defence mergers for national security reasons.

This will take scrutiny of most aspects away from Brussels, though the European Commission will still vet the companies' civilian and dual-use businesses. Washington will have a role because Marconi has substantial interests in the US. Though the Pentagon has reservations about the BAe/Marconi merger, it is expected to approve it.

National differences scupper frigate project, Page 2

Meeting of minds: Alan Greenspan, Federal Reserve chairman (right), and Wim Duisenberg, president of the European Central Bank, at an IMF session in Washington yesterday. Report, Page 6; Editorial Comment, Page 17 Picture: AP

# German economists positive on prospects

By Haig Simonian in Bonn

Germany's six leading economic institutes yesterday delivered a relatively upbeat analysis of prospects for the country's economy, one of the first positive signs for the government after a long period of gloom.

The institutes predicted the economy would grow by 1.7 per cent this year. That is lower than their 2.3 per cent forecast of six months ago, but above the government's own estimates of about 1.5 per cent for 1999.

Their spring economic report said growth would increase to 2.6 per cent next year, while unemployment would fall to 4m this year and 3.8m in 2000.

However, the institutes warned their predictions depended on many variables – notably the speed of economic recovery in Asia and South America.

The report argued domestic demand would be pulled upwards this year by higher exports, which would improve business confidence and boost investment spending. These would help cut unemployment, which would fall from 11.2 per cent in 1998 to 10.6 per cent this year and 9.9 per cent in 2000.

While predicting inflation would remain under control at 0.7 per cent this year and 1.5 per cent in 2000, the institutes called for wage moderation to stimulate capital investment and prevent Germany losing international competitiveness.

The report was welcomed by the red-green coalition of Social Democrats and environmentalists in Bonn, which saw it as a vindication of its growth and job creation policies.

However, the report said poor execution of the first stage of tax reforms and confusion about the coalition's longer term plans had potentially impaired long-term investment decisions. It called on Hans Eichel, finance minister, "to clear the fog which is hanging over companies".

The report also called for urgent action to cut massive state subsidies.

Rubin proposes IMF reform, Page 6
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Happier days here again, Page 17

## WORLD MARKETS

| STOCK MARKET INDICES | | |
|---|---|---|
| **New York: lunchtime** | | |
| Dow Jones Ind Av | 10,798.49 | (+79.90) |
| NASDAQ Composite | 2,616.16 | (-35.89) |
| **Europe and Far East** | | |
| CAC40 | 4,390.92 | (+108.52) |
| DAX | 5,347.50 | (+91.28) |
| FTSE 100 | 6,593.6 | (+90.0) |
| FTSE Eurotop 300 | 1,327.70 | (+20.16) |
| Nikkei | 16,957.27 | (+38.76) |
| **US Lunchtime RATES** | | |
| Federal Funds | 4.8125% | |
| 3-mth Treas Bills: Yld | 4.50% | |
| Long Bond | $95\frac{13}{32}$ | |
| Yield | 5.58% | |
| **OTHER RATES** | | |
| UK: 3-mo Interbank | $5\frac{1}{4}$% | ($5\frac{1}{4}$%) |
| UK: 10 yr Gilt | 109.84 | (109.93) |
| Euro Euribor | 2.590% | (2.591%) |
| Germany: 10 yr Bund | 99.36 | (99.11) |
| Japan: 10 yr JGB | 104.579 | (103.925) |
| **OIL (IPE)** | | |
| Brent (Jun) latest | $15.56 | (15.7) |

| GOLD | | |
|---|---|---|
| **New York: Comex** | $282.3 | (281.3) |
| **London:** | $281.95 | (280.95) |
| **DOLLAR** | | |
| **New York: lunchtime** | | |
| £ | 1.6175 | |
| € | 0.9381 | |
| SFr | 1.50885 | |
| Y | 120.395 | |
| **London:** | | |
| £ | 1.6163 | (1.6129) |
| € | 0.9391 | (0.9432) |
| SFr | 1.5075 | (1.5118) |
| Y | 120.175 | (118.955) |
| **Tokyo Close** | | Y 119.45 |
| **EURO (London)** | | |
| $ | 1.0649 | (1.0603) |
| £ | 0.6589 | (0.6574) |
| Y | 127.974 | (126.122) |
| SFr | 1.6054 | (1.6030) |


London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15. Prices in local currency as shown

| | | | | | |
|---|---|---|---|---|---|
| Bahrain | Din1.300 | Iceland | IKr285 | Oman | OR1.76 |
| Belgium | BFr90(€2.23) | Italy | L4000(€2.01) | Poland | Zl 10.00 |
| CIS | US$4.00 | Jordan | JD1.75 | Portugal | Esc320(€1.60) |
| Croatia | Kn19.00 | Kuwait | KWD0.750 | Qatar | QR13.00 |
| Denmark | DKr16.00 | Latvia | Ls1.65 | South Africa | R18 |
| Estonia | EKr34.00 | Lithuania | Lt21.00 | Spain | Pta325(€1.95) |
| Finland | Fmk13.00(€2.19) | Lebanon | LBP3.500 | Sweden | SKr20.00 |
| France | FFr14.00(€2.13) | Luxembourg | LFr90(€2.23) | Switzerland | SFr3.50 |
| Gibraltar | £0.85 | Morocco | Dh18.00 | Syria | S£80.00 |
| Greece | Dr500 | Netherlands | Fl 4.80(€2.18) | Tunisia | Din2.000 |
| Hungary | Ft380 | Norway | NKr18.00 | UAE | Dh13.00 |

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WAR IN EUROPE BELGRADE HINTS IT MAY ACCEPT UN PEACEKEEPING FORCE ■ NATO EFFORT TO BLOCK OIL EXPORTS WOULD STAY WITHIN INTERNATIONAL LAW ■ US WAR FUND COULD RISE

# Russia, US discuss framework for peace

By John Thornhill in Moscow and James Blitz in Rome

Russian and US officials discussed the framework for a political solution to the Yugoslav crisis in Moscow yesterday as hints emerged from Belgrade that it might be willing to admit a United Nations peacekeeping force to Kosovo.

Vuk Draskovic, Yugoslavia's deputy prime minister, repeated his comments of Monday in support of UN peacekeepers entering Kosovo as soon as Nato halted its bombing.

But yesterday, Mr Draskovic, went further. "I think President [Slobodan] Milosevic [of Yugoslavia] is ready, and must be ready, to accept a Security Council resolution," he said.

On the vital question of how the UN force would be composed, Mr Draskovic indicated that while having Nato nationals on such a force was not desirable, it would be up to the UN to decide.

Mr Draskovic – a former opposition leader – made clear he had not talked about this proposal with Mr Milosevic, who has previously said he would accept only unarmed, non-Nato observers.

But Italian officials said they considered Mr Draskovic's proposal "important" even if "we now have to see if this is followed by a change in Belgrade's stance". Italy is the only Nato country with a diplomatic presence in Belgrade.

Officials at the Italian foreign ministry said they were waiting to see whether Kofi Annan, the UN secretary-general, could make further progress in laying down the ground for a possible peace agreement when he travels to Moscow tomorrow.

In fact, in the attempt to find a negotiated solution to the conflict, all roads appear at the moment to lead to Russia.

In addition to Mr Annan, top Greek and Canadian officials are due in Moscow this week, while Rudolph Scharping, German defence minister, was said to be planning a visit today.

Victor Chernomyrdin, Russia's special envoy to Yugoslavia, yesterday discussed his peace proposals for Yugoslavia – developed during a visit to Belgrade a week ago – with Strobe Talbott, the US deputy secretary of state. Mr Talbott arrived in Moscow on Monday. Mr Chernomyrdin had last week signalled Yugoslavia might be willing to compromise on the introduction of peacekeeping troops into Kosovo. Nato promptly dismissed the "breakthrough", but said it was keen to see Russia pursue its negotiations.

Igor Ivanov, Russia's foreign minister, said yesterday his entire meeting with Mr Talbott had been devoted to a discussion of the principles that could form the basis of a political settlement in Yugoslavia.

"Russia proceeds from the premise that in spite of the whole complexity of the situation, we now have a chance to arrive at a political solution. And we should not let this chance slip," he said.

Mr Talbott confirmed Russia and the US were closely co-operating to solve the Kosovo crisis. "The problem is extremely complicated. It is important that our urgent work continues and it will continue," he said.

The US official flew to Berlin last night to brief German leaders on Moscow's position. He will also discuss Yugoslavia with Mr Annan.

# Republicans add billions to war fund

By Robert Chote, Economics Editor, and Deborah McGregor in Washington

Republicans in the US Congress yesterday unveiled a $12.9bn package to cover the cost of the US role in Yugoslavia, more than double the amount requested by President Bill Clinton.

Saying that the Pentagon faces emergencies not provided for in the president's original request, Republicans added funds to shore up military spending on spare parts, readiness training, recruitment and depot maintenance, as well as increased pay and retirement benefits.

"This $12.9bn bill recognises that we are more deeply involved in Kosovo than we were led to believe and that unless [Yugoslav President Slobodan] Milosevic has a major change of heart, our involvement will be deeper than originally anticipated," said Bill Young, the Florida Republican who oversees spending bills in the US House of Representatives.

Mr Clinton had originally requested $6.05bn in emergency spending to cover the US role in the war. The administration had indicated that such an amount would suffice to cover the air campaign and humanitarian costs to the end of September.

Administration officials had urged the Republican-led Congress to refrain from adding billions in new spending. But Republicans decided to use the request to redress what they claim is a deterioration in US military preparedness in the years of the Clinton presidency. The bill has to be passed by Congress, and is subject to a possible veto by the president.

The price paid for the war by the countries bordering on Yugoslavia will be proportionately far higher, according to an analysis discussed by the World Bank and International Monetary Fund at a special joint meeting last night. The analysis concluded that Albania, Bosnia-Hercegovina, Bulgaria, Croatia, Macedonia and Romania would all face severe macro-economic consequences from the conflict.

If the military campaign was prolonged, they could face a collective balance of payments gap this year exceeding $1.5bn, on top of $311m in refugee-related costs.

These costings – which the Bank and Fund admitted were highly uncertain – assume the refugee crisis lasts throughout 1999. All official trade with the former Yugoslavia would be suspended, with transit trade to third countries picking up in the second half of the year (probably at a quarter of the pre-crisis level and at a higher cost).

The Fund and Bank assume that the number of refugees sheltered in neighbouring countries would peak at around 750,000 in the second quarter of the year, falling only modestly thereafter.

The Kosovo situation was also discussed in the IMF's "interim committee", prompting complaints from some delegations that the IMF was trying to muscle into territory that was properly the role of the World Bank: namely restructuring and long-term structural policies.

Macedonia and Bosnia are likely to face the largest balance of payments problems, with gaps of perhaps 7-8 per cent of gross domestic product this year. This reflects their dependence on trade with the former Yugoslavia.

The countries are also likely to see government deficits widen, with budgetary gaps of around 3 per cent of gross domestic product in Albania, Bosnia and Macedonia.

If the crisis is resolved quickly, the Bank and Fund believe that the refugee costs for the six countries could be held to $139m and the balance of payments gap to $668m. The budget gap would be $308m. The costings do not include figures for Serbia and Montenegro, which are not members of the international institutions.

Meanwhile, the creditors of the Paris Club accepted a deferral of payments due from Albania and Macedonia on their external debt for a year from April 1 1999.

● The European Union yesterday announced it would provide up to €25m ($26m) of budget support to Macedonia to meet refugee-related expenses, Peter Norman writes from Luxembourg.

The payment will be made as soon as all necessary information has been supplied. The EU earlier committed €62m in similar support to Albania.

Separately, the European Commission estimated the cost of reconstructing the Balkans after the Kosovo war at around $30bn.

# Limited oil embargo would be legal

By John Mason

A "visit and search" regime, now expected to be imposed by Nato to discourage the export of oil to Yugoslavia, would lack the effectiveness of a full-scale embargo but should remain within international law.

The lack of a United Nations Security Council resolution has left Nato without legal backing to enforce a full-scale blockade of Serbia and Montenegro, notably through the port of Bar. The two most recent international "interdictions" of sea-borne traffic – the blockade of Iraq through the Gulf, still in force, and that of the Adriatic during the Bosnian crisis – were only achieved after UN resolutions were passed. Without such resolutions, most lawyers agree a full-scale blockade would fall outside international law.

Confirmation of this view from within Nato came on Monday from General Klaus Naumann, chairman of its military committee. He said a blockade – or even the use of force in a stop and search regime – would have no legal backing.

A "visit and search" regime should fall within international law provided it does not involve any vessel being forced either to stop, alter course or to be forcibly boarded. This would apply to the modern technique of boarding by being lowered from a helicopter.

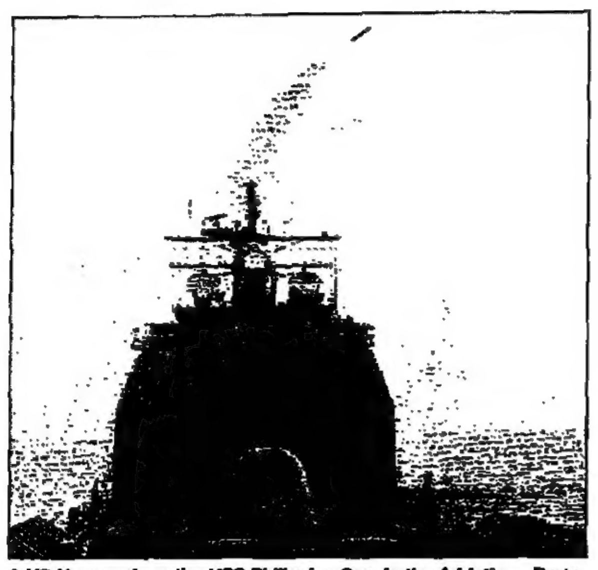
The UN Convention on the Law of the Sea, the main legal statute that would apply, allows warships to board foreign merchant vessels only in strictly limited circumstances.

A convention provision allows a forced boarding where powers to do so are conferred by a treaty. However, according to Ingolf Kaiser, a partner with the shipping law firm Stephenson Harwood in London, it is hard to see what treaty could be used to justify to use of force in the current circumstances.

Such an essentially voluntary regime would inevitably prove less effective than a full-scale embargo. Ships, Russian or otherwise, determined to carry oil would be perfectly capable of doing so.

However, it would still have a significant effect on shipping in the area, said Keith Michel, a lawyer with Holman Fenwick & Willan, solicitors in London specialising in maritime law.

Any form of action that lacked clear international legal backing would lead to uncertainty throughout the shipping industry. It is likely that ship insurers would enforce their own guidelines on carriers, leading to fewer ships carrying oil in the region, he said. However, the future of Russian oil exports to Serbia, the main target of the measure, is likely to be influenced as much by diplomatic as by legal considerations.



A US Navy cruiser, the USS Philippine Sea, in the Adriatic Reuters

# West focuses again on Russian role

By John Thornhill in Moscow

Ever since Nato launched its air strikes against Yugoslavia last month, Russia has railed from the wilderness against the immorality of the western alliance's actions and Moscow's marginalisation in international affairs.

But this week Moscow has bounced back into the limelight as western leaders seek Russia's help in concluding a political settlement to the conflict.

The US administration, in particular, has tried hard to ensure Russia remains a constructive force in the diplomatic arena and does not turn its back on the world. Later this week, the Greek and Canadian foreign ministers will visit Moscow, to be followed by Kofi Annan, secretary-general of the United Nations.

Russia's vehement opposition to Nato's actions transcends the country's political and generational divides. It is the most consensual issue in Russian politics today.

The appeals of Russian-speaking, Orthodox Serbs on Russian television screens have only reinforced the view in Moscow that the Kosovo conflict is about a "clash of civilisations".

President Boris Yeltsin has exploited the Yugoslav crisis to appeal for national unity – and thereby undermine his opponents' attempts to impeach him. But he has also reflected Russia's sense of disgust at what it perceives to be Nato's high-handedness and double standards.

Yesterday, Alexander Solzhenitsyn, the country's most famous writer, joined the anti-Nato chorus, saying the world had now entered a new era of international lawlessness. He compared Nato's disregard for the UN with Hitler's contempt for the League of Nations.

"We should not cling to the illusion that America's or Nato's chief goal in Yugoslavia is the defence of the Kosovars," Mr Solzhenitsyn said. The west had not raised a finger to help Tibet, which had been oppressed by the Chinese for more than 40 years, he said. Nor had it protested about Turkey's abuse of its Kurdish minority. "They have not done anything about this because Turkey is a useful ally."

Patriarch Alexii II, the head of the Russian Orthodox Church, who recently visited Belgrade, also condemned Nato's new strategic doctrine for lacking any "moral criteria" and undermining the authority of the UN.

Even Russia's liberals have attacked Nato's methods, if not its intentions. Grigory Yavlinsky, leader of the liberal Yabloko party, said he did not believe the oppression of national minorities could solely be regarded as the internal affair of any state. But he added that no one could defeat fascism by illegal means.

If the actions of Slobodan Milosevic, Yugoslav president, may qualify as "a crime against humanity", Nato was committing "a political crime".

## KOSOVO UPDATE

### Apache down in Albania

A US Army Apache helicopter crashed in flames during a training exercise in Albania but army spokesmen said the accident would not interfere with plans to deploy 24 of the anti-tank gunships in Kosovo.

The two crewmen were only slightly injured in the crash at 10:15pm on Monday but the $28m Boeing AH-64 helicopter was destroyed. The army said there was "no indication of hostile fire" but the cause of the incident was still under investigation.

### Red Cross to return

The International Committee of the Red Cross said it hoped to receive security pledges in the next few days from Yugoslav authorities and Nato, which would allow it to resume emergency aid in Kosovo.

### Grenade attack on Nato troops

Nato said French Nato troops had come under grenade attack in a Serb-populated area of Macedonia but there had been no injuries.

In the most serious incident to date, unidentified assailants drove slowly past a logistics base in Kumanovo late on Monday evening and threw two hand grenades at a sand-bagged sentry post.

### Bulgaria defends N-plant

Bulgaria sent air defence missile systems to the area around its sole nuclear plant at Kozloduy, some 100km from the border with Yugoslavia. Fears that Bulgaria could be drawn into the conflict have increased as three missiles have hit Bulgarian land during the bombings on Yugoslavia.



# National differences scupper frigate project

By Alexander Nicoll, Defence Correspondent

It was 15 years ago that Britain first agreed to carry out joint studies with other governments on a new frigate, which, in its case, would replace the Royal Navy's Type 42 destroyers.

The destroyers, built in the 1970s, were then quite new. They are not any more. After two failed attempts at collaboration, the UK this week decided to go its own way with a national programme to replace them.

At a time when Tony Blair, the UK prime minister, is reaching out to European colleagues on defence issues and governments are seeking to pool defence procurement, the frigate story is a salutary one that shows just what an uphill road European collaboration can be. That governments attached political importance to the Horizon project was not enough to overcome differing approaches to procurement and the different needs of their navies.

Britain, France and Italy began talking about Horizon after withdrawing in 1989 from a Nato frigate project called NFR-90, involving eight alliance members, including the US. The three wanted a ship to be a platform for air defence missiles being developed by the French and the Italians. The missile became the Principal Anti-Air Missile System (PAAMS) and is still on course, as an important collaborative project, to arm the vessels of all three nations. But it will sit on at least two different models following the collapse of Horizon, caused by nine years of disputes.

The first big problem was the type of ship. Britain wanted a vessel of about 6,000 tons, which could be used for patrols in the heavy seas of the Atlantic. France and Italy wanted ships of half the size, the former as escorts for the new Charles de Gaulle aircraft carrier and the latter for patrols in the Mediterranean. Although they did reach agreement on a joint requirement, the problem has never entirely gone away.

The second issue was the capabilities of the missile. The Royal Navy has never forgotten the destruction of the Sheffield and the Atlantic Conveyor by sea-skimming Exocet missiles in the Falklands war. It wanted the frigates to be able to protect ships in a wide area. This meant being able to hit enemy missiles in flight at virtually any angle, not just those coming in the general direction of the frigate itself. Agreement was reached, although Britain opted for the Sampson radar developed by Siemens Plessey, now part of British Aerospace, rather than the Italian Empar system.

The third problem, which finally sank Horizon, was the industrial structure. The ships were to be built by an international consortium, including the Marconi defence division of GEC (now being sold to BAe), DCN of France and Orrizonte, a venture between Fincantieri and Finmeccanica of Italy. The French and Italian companies are state-controlled.

British officials decided this loose grouping could never deliver what it wanted. The planned delivery date was slipping fast from 2002, when the first ships were supposed to be in service. Since Britain needed 12 ships and the others were expected to take four (though their stated requirement is for 10), the UK opted to exercise some muscle.

It wanted a clear prime contractor – Marconi – to take responsibility for delivering in time and to budget. France agreed, but only with DCN as main sub-contractor for the combat management system – the warship's brains.

Since the UK wanted a BAe-led consortium to produce the combat system, and not DCN, this was rejected.

Some French officials feel the British idea of passing much more responsibility to companies for contract performance was untested and unrealistic on the Continent, and that Britain wanted more work for British companies.

British officials, however, saw Horizon as the first big project on which the Labour government would have to make the early decisions triggering large spending. Britain was keen on defence co-operation in Europe, but it also wanted value for money.

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# Ethnic Albanian exodus widens

By Robert Wright in Lojane, Macedonia

Large groups of ethnic Albanian refugees yesterday started to arrive in Macedonia, for the first time from areas of Serbia outside Kosovo.

The United Nations High Commissioner for Refugees estimated around 2,000 people had arrived by foot, mainly from the town of Presevo, about 9km from the Macedonian border, inside the main republic of Serbia.

While some had found their way to an unofficial border crossing near the village of Lojane, refugees said several hundred women and children had last been seen heading into the mountains.

There are no precise figures of how many ethnic Albanians live in Serbia. The 1991 census recorded some 80,000, compared with 1.6m in Kosovo. However, many ethnic Albanians are believed not to have taken part in the census.

Men who reached Lojane said they had changed direction through the mountains after hearing shooting from near the column of women and children.

UNHCR workers were trying to reach the women and children in the high mountains on the border, where Macedonian security forces were refusing some entry.

Presevo may have been targeted by Serb security forces because it had become home to some Kosovar refugees. Ron Redmond, spokesman for the UNHCR, said: "The Serbs clearly reckon that, since they are doing this work, they might as well clear them out of there as well."

Four men who had arrived in Lojane overnight or early yesterday morning told of security force harassment as the army suddenly sought to serve call-up papers on 800 Albanian men.

Around 80 men had been taken by the army, and were being held in a school in the town. Three other refugees backed up this account. Lojane's population of 3,000 had already been swelled by 1,500 refugees before yesterday.

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# Incentives allow deep cuts in company tax

By Gordon Cramb in Amsterdam

Government incentives allow companies based in three European Union countries to pay barely half the official rate of tax on their earnings, a study to be published today by the Dutch finance ministry shows.

Portugal, Austria and Belgium show the sharpest divergence between their statutory rate of corporate taxation and the average percentage actually paid by groups based there, according to the research, carried out at the University of Maastricht.

These large differences indicate that high levels of tax incentives are being granted, the ministry said. "The effective tax rate is above all the relevant component in cross-border locating and financing decisions."

The ministry said it sponsored the study, which is being made available to other member states and the European Commission, as a contribution to the debate over fiscal competition within the EU. It was "intended to check whether the right path has been undertaken in these discussions, a path that in the view of the Netherlands eventually should lead to a level playing field" for enterprises throughout the EU.

Dick Witteveen, director-general of taxation policy, added: "My impression is the average tax burden is OK, but the differences are far, far too big. If I were an entrepreneur presiding over a larger company, I would be very worried."

The Netherlands, while not favouring any Brussels-directed drive to harmonise taxes, is keen to see closer co-ordination of fiscal policies among member states.

Experts from the accounting and auditing centre at Maastricht examined the annual accounts of nearly 3,000, mainly listed, companies from all 15 members. Banks and insurers were excluded.

They found that the EU corporate sector in 1990-96 paid 26.9 per cent tax on its profits, nearly 10 percentage points below the average of the taxation rates officially applied to them.

Sweden, the Netherlands and France showed the narrowest gaps between the official rate and reality, although the highest effective rates were paid in Germany and Italy. The cheapest environment was Ireland, followed by Portugal and Austria; but Ireland's effective 13.9 per cent reflected a low official tax rate.

This is the third such study circulated by the Netherlands recently but the first to be based on real corporate data. It has commissioned reports from consultants Baker McKenzie and PwC on special deals offered by revenue authorities.

EU corporate tax rates (%)

| | Statutory | Effective | Difference |
|---|---|---|---|
| Austria | 36.02 | 17.67 | 18.35 |
| Belgium | 40.28 | 20.89 | 19.39 |
| Denmark | 35.78 | 29.40 | 6.38 |
| Finland | 34.02 | 29.82 | 4.20 |
| France | 34.70 | 32.82 | 1.88 |
| Germany | 50.05 | 38.63 | 11.42 |
| Greece | 32.88 | 20.99 | 11.89 |
| Ireland | 21.94 | 13.90 | 8.04 |
| Italy | 50.48 | 35.32 | 15.16 |
| Luxembourg | 39.40 | 34.09 | 5.31 |
| Netherlands | 35.08 | 31.80 | 3.28 |
| Portugal | 39.29 | 17.19 | 22.10 |
| Spain | 35.30 | 24.11 | 11.19 |
| Sweden | 28.84 | 27.47 | 1.37 |
| UK | 33.35 | 29.00 | 4.35 |
| EU average | 36.45 | 26.90 | 9.55 |

Sources: Dutch Finance Ministry, University of Maastricht

# Germany forced to face compensation issue again

East Europeans made to work in German companies during the second world war are preparing claims against their former Nazi employers, write **Stefan Wagstyl** and **Christopher Bobinski**

When Gerhard Schröder, the German chancellor, visits Poland today, Kosovo, Nato and Poland's application to join the European Union will be uppermost in his mind. But, as so often when Polish and German leaders meet, the past will not be far away.

While both countries have worked hard to try to heal the damage from the second world war, their work is still far from over. This year, controversy has broken out over the issue of compensation for people taken for forced labour in Nazi Germany.

Until last year, such claims received little attention because Germany was thought to have paid its dues in earlier Bonn government compensation payments. But, inspired by the success of Jewish groups in the west in securing pledges of compensation from German companies, tens of thousands of elderly people in Poland are preparing new claims against their Nazi-era employers. Many others are doing the same in Ukraine, Russia, Belarus and elsewhere in eastern Europe.

They have redoubled their efforts since Mr Schröder spoke this year of a planned new fund for former forced labourers to be financed by German industry.

The demands of east European forced workers have so far attracted less attention than those of Jewish slave camp survivors. But the east European survivors, few of whom are Jews, are pushing their claims into the international arena.

In Germany, lawyers representing 20,000 Polish survivors of Nazi-era forced labour are suing Bonn and preparing to sue individual companies for up to DM7.2bn (€3.7bn, $3.9bn). In the US, several lawyers involved in Holocaust cases have signed up former forced labourers in east Europe for class suits against German and part-German companies, including Siemens and Daimler-Chrysler.

The purpose of the legal action is to end delays surrounding the proposed German industrial fund. Demands from German companies for guarantees against future law suits is proving to be a sticking point. Ed Fagan, a New York lawyer active in both Holocaust-related and forced labour suits, said: "This [legal action] is a way of bringing to the table all legitimate survivors' representatives so we can reach closure on this issue."

Jacek Turczynski, head of the German-Polish reconciliation fund that distributes German government compensation to Nazi victims, says: "I hope we can get a settlement soon because most survivors are now so old."

**20,000 Polish survivors of forced labour are suing Bonn**

Germany aims to start payments by September 1, the 60th anniversary of the start of the war.

Eastern Europe provided most of Nazi Germany's estimated total of 9m forced workers. About 4.5m came from the former Soviet Union and a further 2.9m from Poland, according to Polish and Russian official data. Of these east Europeans, about 1.5m are still alive.

Most non-Jewish forced labourers were not held in concentration camps and, unlike Jews, were not marked for extermination. But they were brought to Germany by force; they were over-worked, poorly fed and often paid little or nothing.

Eugenia and Tadeusz Grzymowski, two Warsaw pensioners, say they were taken to Germany to Volkswagen, which employed 20,000 forced workers at its plant in what is now Wolfsburg. They remember working underground because the factory had already been destroyed by bombing.

Others worked on farms or removed rubble from bomb sites. Eugenia Owczarek, an 83-year-old from Warsaw, was taken from the city in 1944 and deported to the German town of Breslau, now Wroclaw in Poland. She cannot recall who employed her, which complicates her claim. "We didn't belong to anybody," she says. "People would come and take us to work for them."

Few survivors kept documentary records. Others saw no point: after the war, the huge reparations given by Germany to eastern Europe went to the region's governments, not to individuals. Survivors were often frightened of talking about their time in Germany, particularly in the former Soviet Union, where Stalin ordered many who had been held by the Nazis into *gulags*.

It is only in the last 10 years that the issue of the former forced workers has been raised in public.

In 1992, the German government agreed to pay compensation to individual forced workers – and set aside DM500m for Poland and DM1.5bn for Russia, Ukraine and Belarus. About 1.35m people in the former Soviet Union and 700,000 in Poland have received one-off payments of some DM600-DM700 each.

Mr Turczynski complains that these payments were much smaller than those to surviving labourers living in the west who received DM5,000 or more. Chancellor Helmut Kohl's government rejected pressure to increase payments made to eastern Europe, but survivors' groups hope Mr Schröder will take a different view.

## NEWS DIGEST

RUSSIAN GOVERNMENT RESHUFFLE

### Yeltsin replaces cabinet leftwinger with loyalist

President Boris Yeltsin of Russia yesterday reshuffled his government, replacing the cabinet's third most senior minister with a loyalist hawk.

Mr Yeltsin fired Vadim Gustov, the leftwing ex-governor of the Leningrad region, as first deputy prime minister and promoted Sergei Stepashin, the interior minister, in his place.

Mr Gustov was seen as a close ally of Yevgeny Primakov, the prime minister, but failed to make much of an impact in Moscow.

Mr Stepashin, who as head of the FSB, Russia's internal security service, played a leading role in the Chechen war, has a reputation as an aggressive law-and-order advocate.

Mr Yeltsin instructed Mr Stepashin to help supervise the parliamentary elections in December and the presidential elections next year. **John Thornhill, Moscow**

EUROPEAN COMMISSION

### UK told to double art tax

The European Commission will today tell the UK government it must double value-added tax on imports of art works to 5 per cent from July 1 to comply with a European Union directive. Despite fierce lobbying from the British fine arts trade, which has argued that the higher tax could damage London's position as a global art centre, the Commission has concluded that there are no grounds for continuing the special low VAT rate. It replaced a zero rate that was granted to Britain as a temporary exemption when the EU adopted a directive dealing with VAT on second-hand goods in 1995.

The Commission's decision is based on an independent study that led the EU executive to conclude that the UK art market has prospered despite the introduction of VAT on imports. While the value of art works sold by dealers in the EU as a whole between 1993-94 and 1997-98 grew by an estimated 17 per cent, the value of sales in the UK increased by 50 per cent. **Peter Norman**

FINNISH PRESIDENT

### Ahtisaari signals departure

Martti Ahtisaari, president of Finland, yesterday signalled his departure as head of state by announcing his withdrawal from presidential primaries for the ruling Social Democratic party next month.

Mr Ahtisaari, elected in 1994, told Paavo Lipponen, the prime minister and SDP leader, that he would not be seeking renomination ahead of presidential elections early next year.

The move is expected to clear the way for Tarja Halonen, Finland's highly regarded foreign minister, to secure the SDP's presidential nomination.

The president's decision follows reports in the Finnish media that he could be asked by Kofi Annan, the United Nations secretary-general, to be a special peace envoy or mediator in the Kosovo crisis. Mr Ahtisaari, the former UN special representative in Namibia, is understood to have discussed the matter with Mr Annan at a meeting in New York at the weekend. **Tim Burt, Stockholm**

ECONOMICS

### French consumers spend more

French consumer spending rose 3.6 per cent month on month in January, stoked by high consumer confidence and a falling unemployment rate.

Strengthening confidence will be a good omen for growth through the first quarter of 1999 and beyond and will quell expectations of an end to France's consumption-led expansion, say economists. A further decline in the nation's consumer price index for January could further boost household consumption figures.

The January rise in consumer spending followed a revised decline of 0.3 per cent in December, according to Insee, the national statistics institute.

The strongest rise was for clothing and footwear, which were up 9.6 per cent in January compared with December. **Agencies, Paris**

# Seoul threatens industry giants

By John Burton in Seoul

South Korea will toughen sanctions against the five top conglomerates if they fail to restructure, including forcing some units into receivership, and will hold creditor banks responsible for any delays, the head of the Financial Supervisory Commission said yesterday.

The warning came at a meeting between President Kim Dae-jung and leaders of the industrial groups, or *chaebol*, to review progress on corporate reforms.

The *chaebol* completed 80 per cent of their restructuring goals promised for the first quarter of this year and only 40 per cent of their plans to attract foreign investment, according to the FSC.

Hyundai and Daewoo, the two biggest *chaebol*, were *cited for a particularly poor* performance.

The FSC, which is leading the government's financial *and corporate reform programme*, ordered the *chaebol to complete state-mandated* industrial consolidation to *reduce overcapacity in seven* sectors, including semiconductors and petrochemicals, by June.

Creditor banks will be required to establish schedules for the sale and mergers *of chaebol* units in new loan agreements. Banks will also evaluate the five groups on a monthly basis instead of each quarter.

The banks will have to impose strict penalties on *chaebol* that fail to reform, including higher interest rates, a block on new loans, *and putting them under* bank-led rehabilitation "*work-out programmes*" or filing for court receivership.

Banks will be accountable for negligence on the part of the *chaebol*, although sanctions against them were not specified. Most of the big commercial banks, the *chaebols'* main lenders, have been nationalised under a recapitalisation programme to prevent their collapse.

The most potent threat among the measures would be the loss of management control of *chaebol* units by the family owners.

But *some* analysts question the government's commitment to taking tough actions. "Abruptly denying credit would inflict a fatal dosage of non-performing loans on many banks and other financial institutions," said Stephen Marvin, research head at Jardine Fleming in Seoul. The government has nearly exhausted the Won64,000bn ($54bn) allocated for bank recapitalisation.

The government, worried about growing unemployment and labour strife, has been reluctant to shut surplus factories despite its promotion of "big deals", or mergers, in main industrial sectors to cut overcapacity.

# E Timor to go to the polls in August

By Gwen Robinson

A referendum on East Timorese autonomy will be held on August 8 with the help of a United Nations-sponsored police force, President B.J. Habibie of Indonesia yesterday told John Howard, the Australian prime minister.

However, the two leaders, meeting in Bali, failed to agree on disarming pro-Jakarta paramilitary groups.

The summit did not address growing international calls for a UN peace-keeping force to check escalating violence in the former Portuguese colony. Australian officials said the issue had been "addressed" in recent talks between Indonesia and Portugal at the UN, but would not confirm whether such a force was part of the resulting agreement.

Mr Habibie told Mr Howard he had approved without alteration the UN-brokered autonomy package, which would be signed by the Indonesian and Portuguese foreign ministers in New York on May 5.

He did not give details on security arrangements for the autonomy vote, saying they would be announced only when the agreement *was signed*.

Mr Habibie confirmed, *however, that six UN countries* – Australia, Germany, Japan, the Philippines, the UK and the US – would be invited to give advice and contribute to a force of up to 500 civilian police officers to monitor voting.

Scores of East Timorese have been killed by pro-Jakarta paramilitary groups since Mr Habibie's recent promise of full independence for the province by January should the East Timorese reject an offer of autonomy.

Mr Howard said Australia would pay for nearly half the estimated A$45m (US$29m) cost of the UN monitoring operation in cash and logistical support.

## NEWS DIGEST

### MALAYSIAN COURT

## Prosecutors to subject Anwar to further charge

Malaysian prosecutors pressed ahead yesterday with one of six remaining charges against Anwar Ibrahim, the sacked deputy prime minister already convicted on four counts of abusing his power to conceal alleged sexual misdeeds and sentenced to six years in prison. But they asked the court to postpone hearing five other charges.

Mr Anwar pleaded not guilty to the single charge – that he sodomised the family driver, Azizan Abu Bakar, in May 1992 – and criticised a "malicious prosecution".

The date of the alleged offence was altered yesterday to 1992 from 1994. "Why did they change this?" Mr Anwar's wife, Wan Azizah Wan Ismail, said. "This is really a question to be asked."

Dr Wan Azizah has formed a political party to oppose Dr Mahathir, and Malaysia has protested to the Philippines about a Rotary club invitation for her to visit Manila. But yesterday President Joseph Estrada said: "We have to prove to them that we are a free country. Everybody is welcome here." **Sheila McNutty, Kuala Lumpur**

### CHINESE CRITICISM

## Japanese defence bill passed

Japanese lawmakers yesterday passed defence legislation that will significantly enhance Japanese co-operation towards US forces in maintaining regional security.

The Lower House of the Diet passed the Defence Guideline bills aimed at allowing Japan's Self-Defence Forces to provide rear-area logistical support for US forces as well as fuel and necessary goods. The bills for the first time extend the forces' activities beyond Japanese territory.

The passage of the bills, just two days before Keizo Obuchi, the prime minister, starts a visit to the US, has been a priority for the US and Japanese governments, which believe that greater *Japanese participation in its* own defence and in Asian-Pacific security is crucial to maintaining the US commitment in the region.

The Chinese foreign minister, Sun Yuxi, yesterday criticised the defence bills as "*against the trend of the times*" and expressed concern that the bills could "adversely *affect regional security*". *But Taiwan, in a statement that* could inflame difficulties with Beijing, said the move would *benefit stability in the region.* **Michiyo Nakamoto, Tokyo**

### NEW ZEALAND

## Shipley loses minister

Jenny Shipley, *New Zealand prime minister*, was yesterday forced to sacrifice Murray McCully, a key minister and supporter, in the face of a growing concern about the government's handling of Tourism Board spending. Earlier this year Mrs Shipley managed to survive a dispute over an advertising contract by the Tourism Board with Saatchi and Saatchi that was linked by critics to her friendship with Kevin Roberts, New York head of the agency.

This prompted an inquiry into spending by the board and into the strained relationship between it and its minister, Mr McCully. The auditor general's report was highly critical of Mr McCully. Initially he was supported by Mrs Shipley, but yesterday Mr McCully unexpectedly announced his resignation. **Terry Hall, Wellington**

# Digital TV causes divisions and heart-searching in Japan

**Michiyo Nakamoto** reports on a bid for technological leadership that may be ducked

In a few years ordinary TV viewers in Japan will be able to respond directly to TV show surveys, order goods they see on the screen and call up data on a favourite baseball player as they watch him prepare to bat.

At least that is what Japan's broadcasting authorities hope as they lay the groundwork *for* terrestrial TV to go digital over the next several years.

Japanese lawmakers will *today debate legislation that* paves the way for the shift *from analogue to digital* technology, which is *expected to transform the country's* television broadcasting.

Despite the authorities' enthusiasm, however, the *country's programme* to launch digital terrestrial broadcasting is in danger of being significantly delayed, dealing an embarrassing blow to Japan's reputation for technological leadership.

"It is almost impossible to meet the [government's] schedule," says Kazuo Machida, director of the planning division of the National Association of Commercial Broadcasters in Japan. If the transition to digital broadcasting is made according to plans of the Ministry of Posts and Telecommunications (MPT), it will take 30 to 40 years, he warns.

A delay would put Japan far behind the US and UK, which have both already started trial broadcasting of digital terrestrial TV. Failure to start digital broadcasts on schedule this year would be an embarrassment for the Japanese authorities, after the commercial failure of high definition TV. After six years, HDTV, which was developed under the guidance of the ministry, *has* sold only 1.8m sets.

*It would also undermine* the government's aim of encouraging new businesses to become engines of growth *for the Japanese economy*.

The MPT believes digital broadcasting by terrestrial stations, which will offer viewers more choice of channels, clearer pictures, compatibility with PCs and interactive capability, is critical in transforming Japan into an advanced information society. Digital terrestrial broadcasting alone could generate Y212,000bn ($23.3bn) in revenues for a range of industries over 10 years, the ministry calculates.

According to government plans, trial broadcasts would begin in the Tokyo area next year, in the three largest urban areas by 2003 and the rest of the country by 2006.

However, a lack of frequencies and differences over who should shoulder the costs of switching technology could throw things off course. "Digitalisation is going to be very expensive and financing it is a real headache," says Mr Machida.

It is estimated that investment in digitalisation will cost the industry Y900bn, mainly because of the many relay stations needed for broadcasts to every corner of the mountainous country.

Compared with an average four relay stations per broadcaster in the US, Japanese *broadcasters have an average 64* relay stations. In total *there are 15,000 relay stations* throughout Japan each *of which* will need to be fitted with digital equipment.

Japanese ponder their entrance into the age of digital television AP

The government insists the industry must bear the cost. "It is not that much of a burden for them, given the profits key [national] broadcasters make. The key stations spent as much as Y100bn to build their new headquarters," says a government official.

But broadcasters say they cannot afford to take on additional costs in the current economic climate. "We believe that this is a national policy which the government *is forcing on us*," says Mr Machida.

*At the same time, a serious* lack of broadcasting frequencies *means* the transition will be a long and *painful process. Frequencies* are limited and because of the large number of relay stations in Japan, each needing a different frequency, Japan has precious few left.

As a result the MPT will need to use frequencies for digital broadcasts that are being used for analogue transmissions by millions of viewers all over Japan.

Those viewers will have to have their channels reset by technicians. "That alone will take years," says an official at Fuji TV, one of the key networks. "It can't be done overnight. *The chances are* very strong that [the MPT's *schedule*] will be delayed."

What is more, the cost and trouble *of having to do* that is likely to cause an outcry among viewers, industry officials warn.

Although the MPT plans to start trial broadcasts next year, the standard for the technology Japan will use has not yet been agreed. Even the MPT admits that "there is a danger no broadcaster will volunteer for the trial broadcasts", according to one official.

Few in the industry deny Japan needs to digitalise broadcasting. "Digitalisation is important but there is little enthusiasm for investing in it," says Mr Machida.



# Posco to raise steel prices

By John Burton in Seoul

South Korea's Pohang Iron and Steel (Posco), the world's second largest steelmaker, said yesterday it planned to raise its export prices for the Asian market for the first time since late 1997, in a bellwether sign of regional economic recovery.

The announcement reversed a bleak forecast by Posco *in early April* about export prospects, which it then *predicted* would slow because of weaker global demand and protectionism.

But global steel prices *have recently strengthened*. Domestic steel demand for US producers has increased because anti-dumping duties have *curbed imports* and European steelmakers are also enjoying increased sales due to inventory restocking.

Analysts warn the proposed price increases by Posco and other Asian steelmakers, including Nippon Steel, may not be sustainable because they partly reflect temporary increases in regional demand such as inventory restocking. "The recovery is likely to be fragile," said one analyst.

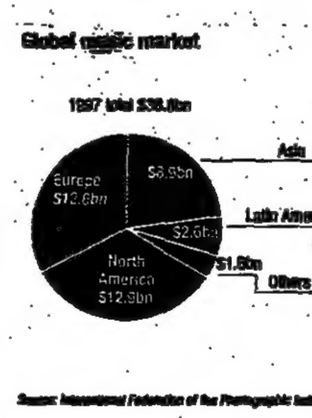
Posco plans to raise the price for steel products to south-east Asia and China by $5-$10 per tonne from June. Prices for high-quality steel *to Europe* and the Middle East would also be increased by up to $20 per tonne.

*Steel demand in south-east Asia* was growing because of inventory restocking, *while* a recovery of Chinese home electronics and construction sectors would result in increased steel sales, Posco said.

Export prices to Japan would remain at current levels because consumer demand and investment had yet to recover.

Posco is also considering raising export prices to the US, where it has recently been subject to anti-dumping duties on some steel products.

# Tempo slowing in world music market




By Alice Rawsthorn in London

The global music market was static at $38.7bn last year, according to industry figures. A resurgence in North American record sales was counter-balanced by a downturn in the once-buoyant Asian and Latin American markets.

Figures published yesterday by the International Federation of the Phonographic Industry (IFPI), the London-based body which represents the world's record companies, *show that worldwide* retail sales of music in 1998 were *virtually unchanged* from 1997's $38.6bn, well *below* 1996's high of $39.5bn.

*The sluggish state of the* market, following a period of robust growth from the mid-1980s to mid-1990s, is already triggering significant changes in the structure of the international music industry.

PolyGram, once the world's largest music group, was taken over last year for $11bn by Seagram, the Canadian entertainment concern and merged into the latter's Universal Music subsidiary. EMI, the last remaining specialist multinational music company, has been dogged by long-running bid rumours.

*Universal, EMI and other* multinational music groups – *Sony of Japan*, North America's Warner Music and Bertelsmann of Germany – have been cutting costs and reorganising operational areas, notably distribution, to adjust to the market slowdown.

The softness of the retail sector also comes as the music industry is poised for dramatic changes in its traditional distribution patterns because of the internet's potential to deliver electronic recordings directly to consumers' computers.

Electronic delivery poses a threat to the industry by significantly increasing the risk of piracy, but also creates an opportunity to develop profitable new vehicles for direct distribution.

*The best news* for the industry last year was the *rebound in the US*, still the world's biggest single music market. Retail sales there rose by 11 per cent to $13.2bn in 1998 against 1997's $11.9bn. By contrast, Canadian sales slipped to $989m from $997m in 1997.

Europe stalled at $12.8bn in 1998 compared with 1997's $12.6bn. Strong growth in Spain, Sweden and the UK was offset by sales declines in France and Germany.

Nearly $1bn was wiped off the value of the Asian music market, where sales fell to $8bn in 1998 from $8.9bn in 1997. The South Korean, Taiwanese, Hong Kong and Malaysian markets were particularly badly affected.

Latin America also fared badly, with regional sales sliding to $2.2bn in 1998 from $2.4bn in 1997, triggered by a decline in Brazil from $1.2bn to $1.05bn.

# US green groups offer safeguards on trade

By Nancy Dunne in Washington

US environmental groups have published a white paper putting forward proposals which would give President Bill Clinton negotiating authority on trade while ensuring that environmental and health laws are not undermined by its goals.

The paper, released by the Sierra Club and the National Wildlife Federation, claims to be a response to Mr Clinton's call in his State of the Union speech for "a common ground on which business and workers and environmentalists and farmers and government can stand together".

"In the past, trade officials representing the views of big business have swept environmental concerns under the rug," said Carl Pope, Sierra Club's executive director. "Our approach would ensure that the public interest in strong environmental laws is well represented at the negotiating table."

Many of the proposals will be unacceptable to the Republican leadership which controls Congress. But with no end in sight to the five-year stalemate over trade policy, it has become clear that the pro-trade bloc in Congress must win support from environmental groups or other opponents if any president is to negotiate new trade deals. Negotiating authority is necessary for the US to complete the new round of multilateral trade talks expected to be launched in Seattle in December.

*The white paper proposes* a Special Standing Committee on International Trade, consisting of leaders, committee chairman and senior minority members from both houses and both parties. This is to ensure the full range of interests affected by trade – from science to environment to labour – is represented on a policymaking committee.

The proposal will be strongly opposed by the House ways and means committee and the Senate finance committee, which have full jurisdiction over trade matters. The paper calls for the adoption of the "precautionary principle" in cases of scientific uncertainty about health and safety rules, so that countries may adopt preventative environmental and health standards that could otherwise interfere with trade. It would allow countries to regulate imports based on how a product is produced, provided that standards are set in a transparent and non-discriminatory basis. It would eliminate subsidies that distort *trade and harm the* environment – *fishing subsidies, for example* – while preserving those that promote non-market social values, such as environmental protection.

Some of these proposals would find more support overseas. Adoption of the precautionary principle could make the EU beef hormone ban acceptable under trade rules. Allowing countries to set their own "process standards" could make acceptable the US ban on shrimp imports caught in nets which also trap turtles.

# Azerbaijan oil contracts signed

By Jeanne Whalen in Moscow

Three US oil companies yesterday signed contracts worth an estimated $10bn to develop Caspian Sea oil with Azerbaijan, breathing new life into a region affected by recent exploration disappointments.

Exxon, Mobil and Texas-based Moncrief Oil International signed the deals with Azerbaijani President Heydar Aliyev in Washington.

Mr Aliyev, who is on a visit to the US, said the contracts could boost investment in Azerbaijan following the recent departure of two international oil consortia.

Exxon and Mobil are committed to separate offshore production projects. Each company will own 30 per cent of its project, with the state oil company of Azerbaijan, SOCAR, owning 50 per cent. The remaining 20 per cent of each project is open to bidders. Moncrief Oil will work with SOCAR to develop an onshore field.

All three contracts were signed as production-sharing agreements, which guarantee the foreign companies secure and favourable investment terms. Production and investment will depend on successful exploration of the regions.

Azerbaijan has been the biggest recipient of foreign investment of the five nations bordering the Caspian Sea. With the three new deals it has signed contracts worth up to $50bn.

Hopes are high that the Caspian will prove another North Sea, but much of the region's reserves remain unproved. *In Azerbaijan's* section of the sea, the only *consortium successfully* producing oil is the Azerbaijan International Operating Company, led by BP-Amoco.

With the departure of two unsuccessful consortia, all eyes are now on the Shah Deniz project, also led by BP-Amoco, which will conclude the drilling of a crucial test well in the coming weeks.

Mobil's block, in the southern part of Azerbaijan's Caspian sector, covers 318 square miles (840 sq km). Exxon's covers 250 sq miles and Moncrief's 410 sq miles.

## NEWS DIGEST

### FOREIGN DIRECT INVESTMENT

## Capital flows to Asia defy regional turmoil

Inflows of foreign direct investment into developing countries in Asia held up well last year despite the region's economic turmoil, according to the United Nations Conference on Trade and Development. FDI inflows declined by 7 per cent, the first drop since the mid-1980s, but this was almost entirely the result of disinvestment in Indonesia and a sharp fall in flows to Taiwan, Unctad said yesterday.

Though FDI this year was likely to fall further, it would remain above the average for the 1990s and longer-term prospects were good. East, south and south-east Asia received $78bn in FDI inflows in 1998, down from $84bn in 1997 but still well above the $44bn average for 1991-95. **Frances Williams, Geneva**

### BANANA DISPUTE

## Panel to condemn EU regime

The World Trade Organisation, at Ecuador's request, has called a special meeting of its dispute settlement body on May 6 to adopt a WTO panel report condemning the European Union's banana import regime. Roberto Betancourt, Ecuador's ambassador to the WTO, yesterday called on the EU to spell out at that meeting "the specific, substantive and immediate changes that will be made to the EU regime" to comply with WTO rules. The EU last week decided not to appeal against the findings and said it would comply with the WTO's recommendations. On Monday EU governments asked the European Commission to draw up proposals by the end of May. **Frances Williams**

### EXPORT CREDITS

## UK plans reinsurance review

Britain's Export Credits Guarantee Department is to review the future of its reinsurance business in the light of falling demand for its services. ECGD has continued to offer reinsurance services to private UK-based export credit insurers since its own short-term export credit business was privatised through a sale to the Dutch NCM group in 1991.

The arrangement was intended as a stop-gap measure, because few alternative sources of reinsurance were available. ECGD said private capacity had since increased, while demand had declined. **Guy de Jonquières, London**

### AIRCRAFT PARTS

## Volvo in deal with Boeing

Volvo Aero, the aerospace subsidiary of the Swedish automotive and engineering group, has been granted exclusive rights by Boeing to market and sell surplus spare parts and components for jets produced by the US aircraft manufacturer. Boeing said the five-year agreement would cover about 230,000 component and part numbers, mainly for aircraft no longer in production. The sales and marketing operation will be managed by Ages Group, Volvo Aero's aircraft engines and components business in the US. Boeing will maintain its main spare parts operations for existing aircraft in production. **Tim Burt, Stockholm**

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Prosecutors to ... Anwar to further

Capital flows to Asia ... regional turmoil

Panel to condemn EU ...

UK plans reinsurance ...

Volvo in deal with Boeing

# Arafat faces tough choice on statehood

By Judy Dempsey in Gaza City

Yassir Arafat, president of the Palestinian Authority, yesterday faced one of his toughest decisions since returning to Gaza from exile five years ago: whether or not to declare a state next Tuesday when the interim self-rule period of the Oslo peace accords with Israel expires.

The decision, being debated behind closed doors in Gaza by the 124-member Central Council of the Palestine Liberation Organisation, coincides with immense pressure from the US to postpone a unilateral declaration, and threats by Benjamin Netanyahu, Israeli prime minister, to re-annex Palestinian-controlled areas of the West Bank.

It is a gamble for the Palestinian leader, who has spent all his adult life fighting for a state. If, say his advisers and western diplomats, he declares a state on May 4, it will boost Mr Netanyahu's chances of re-election on May 17 and destroy the peace process – which Israel has threatened to do.

"We know exactly how Netanyahu will respond," said an adviser to Mr Arafat. "He will use the declaration not only to boost his election chances, but also as an excuse not to give us more land.

"We will not fall into that trap. I hope Palestinians understand it."

Mr Arafat is hoping that the PLO council, packed with his loyal supporters, will accept such a postponement since many states, particularly European Union countries, in the UN Security Council have openly declared their support for Palestinian statehood as compensation for any delay.

But such international support is hard to sell on the dusty streets of Gaza, where there is growing disappointment with Mr Arafat. Many see him bowing to pressure from Israel and the US.

"No matter what Arafat does, he cannot win," said Sa'ad Saleem, a driver. "The Americans and the Israelis always find an excuse to deny us our statehood. We've had enough. Let us declare a state now. If the Israelis want to invade, let them. I'll throw stones at them."

The White House earlier this week tried to offer Mr Arafat some leeway for postponing the declaration. It suggested that, once the Israeli elections were over, Washington would start final status negotiations with the goal of "reaching an agreement within one year". It added that the interim agreement, signed between Israel and the PLO, was not "open-ended".

However, the White House failed to support a Palestinian state. Furthermore, it made no direct reference to Israel's continuing policy of expanding Jewish settlements in the West Bank, demolition of Palestinian homes and confiscation of Palestinian residency permits in east Jerusalem.

"That's the problem for Arafat," said another Palestinian official attending the meeting, expected to last several days. "We go from one new deadline to the next. We have no firm commitments from the US that it will recognise our state. Each new deadline gives Netanyahu more time to build new settlements on our land while Israel refuses to implement any peace accord it signs."

Palestinians demonstrating yesterday outside Yassir Arafat's offices urging him to declare statehood Reuters

## NEWS DIGEST

IRANIAN POLITICS

### Reformers ousted from Tehran city council

Five leading reformers elected in February to seats on Tehran's new city council have been disqualified by a conservative-dominated body, the official Irna news agency said yesterday.

Their rejection is likely to provoke a new round of tension between the supervision body and President Mohammad Khatami's interior ministry, which has already endorsed the results of the vote for Tehran, where reformers won all but two of 15 seats.

Elected council members across Iran are set to hold their first meetings tomorrow.

Abdollah Nouri, a close Khatami ally, is among those rejected. The others are Saeed Hajarian and Mohammad Atrianfar, reformist newspaper directors, and Ebrahim Asgharzadeh and Ahmad Hakimipour, pro-Khatami political activists.

Irna said the five had been disqualified on the grounds that they had never been approved to run. They were replaced by two reformers, two conservatives and one independent – all runners-up behind the disqualified five.

The supervision body, dominated by three hardline members of parliament, tried to bar several pro-Khatami candidates in advance of the Tehran election, but was forced to relent after last-minute intervention by the president.

The elections were Iran's first local polls and a big step by Mr Khatami to build a democratic power base against conservative opponents. Reuters, Tehran

ALGERIA

### New president boycotted

Abdelaziz Bouteflika, Algeria's new president elected in a one-man poll, yesterday called on his countrymen to join forces with him to help return Algeria to peace. In a swearing-in ceremony boycotted by the opposition because of charges that the April 15 election was rigged, Mr Bouteflika said his priority would be to end the violence gripping the country since 1992 and to promote multi-party democracy.

A day earlier, however, the opposition had been denied permission to hold demonstrations against Mr Bouteflika's election. Six political figures who had run against him and pulled out of the race on the eve of the election charging massive fraud, issued a statement accusing the army-backed regime of closing all avenues to democracy. To enforce the ban on street protests, the government deployed 10,000 riot police in central Algiers on Monday and closed off access to the city.

Mr Bouteflika took over from Liamine Zeroual, the former army general who was appointed by the military in 1994 and elected president a year later. Roula Khalaf, London

KAZAKHSTAN

### Economy shrinks 4 per cent

Kazakhstan's economy shrank by more than 4 per cent year-on-year in the first quarter of 1999 while industrial output slumped 4.1 per cent, the director of the National Statistics Agency said yesterday.

The vast, resource-rich Central Asian state of 16m people has been hit hard by the fall in prices for its exports of oil and metals, as well as the financial crisis in neighbouring Russia and the lack of interest in emerging markets.

In a radical change of policy aimed at promoting industrial growth through increased competitiveness with neighbouring countries, the government effectively devalued the tenge currency this month. Reuters, Almaty

# Egyptian militants drop 'failed' armed campaign

By Mark Huband in Cairo

Egypt's largest Islamist guerrilla organisation aims to intensify political pressure on the government after abandoning an eight-year military campaign that its leaders admit has been a failure.

"There's a feeling that the government has won. We want to create a peaceful climate so that we can take our time and think about what should happen next," said Muntassir al-Zayat, a lawyer who acts on behalf of the Gama'a al-Islamiyya militant group.

Mr al-Zayat had been liaising between exiled and jailed leaders of the organisation in the talks, which led to a ceasefire after a campaign in which 1,300 people, mainly policemen, were killed and serious damage caused to tourism, the country's highest foreign exchange earner.

"Fighting is not an aim in itself. It's a means. If that means proves to be a failure we should find another way. Within two years we will begin to see some fruit," Mr al-Zayat said.

"What is clear now is that the Gama'a has grown up, based on the experience of the past 10 years. We will still oppose the government, strongly oppose the government. But it will be peaceful."

He insists the organisation's agenda remains the same. Only the means of achieving it has changed.

The fracturing of the Gama'a al-Islamiyya between leaders exiled abroad and those jailed in Egypt led to a breakdown in strategic planning that had, until recently, seen the exiled leaders insist on a continuation of the armed campaign while those in jail had called for a ceasefire. This confusion may have been behind the killing of 58 foreign tourists at Luxor in November 1997, which came three months after an original ceasefire call by the jailed leaders.

It cannot be assumed that all armed activists associated with the Gama'a al-Islamiyya, which was born out of social and economic frustration in upper Egypt, will immediately heed the order. But with a broad swathe of the leadership – including Sheikh Omar Abdel Rahman, its spiritual leader, now serving a life jail term in the US – having agreed to abandon the strategy of violence, the issue facing the Islamists and government is how best to advance a political solution.

**'The Gama'a says that its problem is with the Egyptian government. It is not wise to win extra enemies'**

The Egyptian government is so sensitive about the issue that it has not responded to the ceasefire. Nor has it officially announced that it has released 1,000 Islamist prisoners in the past three days.

So determined is the government to retain the credibility of its security-centred, rather than political, approach to the Islamist issue, it will continue to maintain that political dialogue is unthinkable.

However, the timing of the prisoner release is not regarded as coincidental. The sentences of many of those released had long been served, and the prisoners' continued incarceration had fuelled the Islamists' sense of injustice.

The Gama'a al-Islamiyya's shift in strategy is also being regarded by some analysts as reflecting a significant change in the political role of militant organisations across the Islamic world.

Increasingly the objectives of these groups are being defined by their response to the call in 1998 by the Afghanistan-based Saudi Arabian dissident Osama bin Laden for a global assault on US interests. While Jihad and its Afghanistan-based leader Ayman Zawahri have allied themselves with Mr bin Laden, Gama'a al-Islamiyya rejected such a move. While three Gama'a leaders are known to be in Afghanistan, they are not with Mr bin Laden.

"They saw no urgency in declaring the war against America. The Gama'a says that its problem is with the Egyptian government. It is not wise to win extra enemies," said Mr al-Zayat.

# WHO wants tobacco regulated as other drugs

By Frances Williams in Geneva

Gro Harlem Brundtland, director-general of the World Health Organisation, yesterday opened a new front in the WHO's campaign against smoking by calling for tobacco products to be regulated like other drugs.

Addressing drug regulators at an international conference in Berlin, Dr Brundtland said cigarettes were "inherently dangerous products" designed by tobacco companies to create and maintain nicotine addiction.

"A cigarette is a euphemism for a cleverly crafted product that delivers just the right amount of nicotine to keep its user addicted for life before killing the person," she said. Far from being simply tobacco leaves rolled up in a paper tube, cigarettes were "one of the most highly engineered consumer products available".

Dr Brundtland's call for regulation is part of a reinvigorated drive by the WHO to put the war on tobacco at the top of the global health agenda.

Deaths from smoking, now 4m a year, are predicted to rise to 10m a year by 2025, when tobacco will be the single largest cause of death and disability worldwide.

More than 70 per cent of smoking-related deaths are in developing countries, a proportion that is set to rise.

Next month's World Health Assembly in Geneva is expected to approve the start of negotiations on a framework convention on tobacco control. This will be the world's first public health treaty and will cover issues ranging from taxation to advertising bans and smuggling.

Describing the tobacco industry's conduct as "shameful", Dr Brundtland yesterday urged governments to push for the inclusion of effective tobacco content and design controls in the protocols to the convention.

WHO tobacco experts say it makes no sense for nicotine-replacement therapies produced by pharmaceutical companies as an aid for smokers wanting to quit to be tightly regulated while cigarettes are freely sold. Even the food products sold by diversified tobacco companies are subject to stricter regulations than their tobacco products, the WHO points out.

Derek Yach, head of the WHO's tobacco-free initiative, hopes new evidence uncovered by recent US lawsuits against the tobacco industry will influence governments and regulators to take a tougher stand.

The WHO plans to present that evidence to regulators later this year, claiming the industry denied scientific evidence on nicotine addiction while using that knowledge to hook young smokers.

IMF/WORLD BANK MEETINGS US TREASURY SECRETARY ARGUES IT IS TIME TO REALIGN CONSTITUENCIES

# Rubin seeks to limit Europe's influence

By Robert Chote, Economics Editor, in Washington

Robert Rubin, US Treasury secretary, yesterday said it was time to consider realigning the constituencies within which countries were grouped at the International Monetary Fund, a move that would see Europe lose influence in the global economic watchdog.

Speaking at the IMF's "interim committee" of finance ministers and central bankers, he also sounded a note of caution on the world economy, warning: "The balance of risks remains on the downside." It was important that Europe redouble its efforts to increase domestic demand.

Mr Rubin said his proposal to reshuffle the political representatives on the IMF's governing bodies "takes into account the changing dynamics of the world economy and provides an appropriate voice, in particular, for emerging market economies".

The IMF's 183 member countries are grouped into 24 constituencies, each providing an executive director on the IMF board and a member of the interim committee. At present European countries have eight of the 24 seats, far in excess of their importance in the world economy.

Mr Rubin's suggestion was swiftly opposed by Hans Eichel, Germany's finance minister. He said that emerging market countries could be given a greater role "without altering the present structure of the constituencies". But French officials said that some rejigging could be considered.

Mr Rubin's move reflects long-standing US frustration at Europe's over-representation in the international financial institutions. Grouping the European countries in a smaller number of constituencies would not affect their voting power but, as most Fund decisions are reached by consensus, many officials regard the number of chairs as more important.

Meanwhile, Mr Rubin rejected France's proposal to convert the interim committee into the formal decision-making "council" envisaged in the IMF's articles of agreement. "Instead I think we should take steps to make our discussions more open and frank – aimed at building consensus rather than making speeches."

Kiichi Miyazawa, Japan's finance minister, said he would be prepared to support the creation of the council, which "may be the optimal solution". But there would have to be more balanced representation of emerging market economies.

Officials pointed out that the realignment of IMF constituencies had been ruled out when the new "quotas", or shareholdings, in the Fund were agreed in 1997.

The committee also discussed how better to involve the financial sector in crisis resolution. Mr Rubin opposed creation of a "heavy-handed vehicle" to allow the Fund to effect payment standstills in crisis countries. Dominique Strauss-Kahn, French finance minister, urged a "supple and pragmatic approach".

INTERNATIONAL FINANCE GLOBALISATION MEANS INCREASING DEMANDS FOR EFFICIENT GOVERNANCE

# IMF wrestles with reform challenge

By Robert Chote

The ministers and officials arriving for the International Monetary Fund's "interim committee" meeting yesterday looked like reluctant schoolchildren preparing to waste a sunny day conjugating Latin verbs. With hours of tedious statements and disconnected interventions ahead, it is not a prospect you would wish on your worst enemy.

Interminable meetings are part of the job description for international economic policymakers and their fate is never going to excite public sympathy. But the aftermath of the recent emerging market financial crises has persuaded many officials that the governance of the international financial system needs a shake-up. This involves two sometimes conflicting objectives: efficiency and legitimacy.

The interim committee scores poorly on the first and better on the second. It was formed in 1974 to advise "on supervising the management and adaptation of the international monetary system as well as dealing with disturbances that might threaten the system".

The committee's legitimacy stems from the fact that its 24 members – mostly finance ministers and central bank governors – represent all the Fund's 183 members through constituencies. The Canadian finance minister, for example, represents 14 countries, ranging from Jamaica to Ireland. This mirrors the structure of the IMF's executive board, on which representatives from the same 24 constituencies sit in almost constant session in Washington to oversee the IMF's daily work.

But no one would describe the committee as efficient. The US in particular believes that its agenda is dominated too much by IMF management and that the wrong countries are sitting round the table. Of the 24 chairs, eight are occupied by Europeans, excluding many emerging market countries.

Last year the US tried to get round this problem by convening a meeting of 22 "systemically significant nations" of its own choosing. But it was not long before the countries excluded were demanding to join, beginning with the smaller European nations. By earlier this year the group had ballooned to 33 members and, by common consent, lost its effectiveness. Australia in particular was appalled that an effective forum had been wrecked.

In a second attempt to improve the committee's efficiency, Carlo Ciampi, its chairman and the Italian finance minister, convened a meeting of "deputies" (or senior officials) to meet shortly before the committee proper. Michel Camdessus, the IMF managing director, feared that this would undermine the role of the board, but other officials argue that it has been effective. In particular, it did valuable work on the "precautionary credit line" proposal agreed by the board last week.

But there is no consensus yet on how to reform the interim committee itself. Mr Camdessus, backed by his native France, favours transforming it into the formal decision-making "council" envisaged in the IMF's articles of agreement. This, however, does not really address the efficiency issue.

Mr Ciampi has put forward another proposal known as "double hat", under which the interim committee would spend some of its time discussing purely IMF business before putting on another hat to discuss issues of wider concern to the international financial system with a broader range of participants.

Involving other institutions is central to the governance debate. Mr Camdessus's only concession so far has been to give James Wolfensohn, president of the World Bank, what he describes as "a kind of privileged status among the observers of the interim committee".

But there are more radical proposals than this. One is the creation of a body over-arching both the interim committee and the "development committee", which provides ministerial guidance to the Fund and the Bank on issues affecting poorer nations.

This is one body which already has the membership – if not the authority – of an over-arching body. This is the Financial Stability Forum, chaired by Andrew Crockett of the Bank for International Settlements. This comprises members from the Group of Seven leading industrial countries, the Fund, the Bank and other international institutions. But its legitimacy is undermined by the lack of representatives from emerging markets. The forum hopes to address this by creating sub-groups with wider membership.

This discussion of groups, committee and forums all seems very arcane. But in a world in which globalisation has increased the need for international surveillance of, and interference in, national policies it is important to build an efficient and political sustainable framework in which it takes place.



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## NEWS DIGEST

CORRUPTION SCANDAL GROWS

### Brazil ex-bank chief acquitted over contempt

Francisco Lopes, former president of the Brazilian central bank, was acquitted on charges of contempt yesterday morning but remains at the centre of a growing scandal over allegations of corruption at the bank. Mr Lopes was arrested on Monday afternoon after he refused to sign an oath before giving evidence to a Senate inquiry into the corruption scandal. He was released on bail and the Supreme Court ruled yesterday that the charges should be dropped on the grounds that Mr Lopes had the right not to respond to questions that could incriminate him.

The arrest had increased fears that the scandal could damage the still fragile recovery in confidence in the Brazilian economy after the January currency crisis, but financial markets reacted calmly.

The Senate is investigating allegations that several banks paid officials at the central bank for information on interest rate policy and advance warning about the devaluation last January. Senators are also looking at circumstances surrounding the central bank's decision to sell dollars below market price to two struggling local banks during the crisis. **Geoff Dyer, São Paulo**

NATIONAL CONTRACTS

### Steelworkers prepare for talks

Steelworkers' union leaders, meeting at a conference in Pittsburgh yesterday, began to hammer out their final negotiating position ahead of national contract talks. No date has been set for the talks, but five of the biggest steel companies – including USX-US Steel, Bethlehem Steel and LTV – will see existing contracts expire at the end of July. A number of smaller groups have deals ending shortly afterwards. About 60,000 workers are covered by these agreements.

Normally the negotiating process would already be under way, but the steel industry's recent trade battle against a tide of cheap imports has led to the delay. The talks will be closely watched, in part because they follow a period of co-operation between management and workers, who united to lobby on the trade front. One bone of contention could be the length of any new contract: the six-year deal agreed in 1993 was unprecedented, and a mid-term review in 1996 did not go smoothly. Unpopular profit-sharing arrangements, job security and pension benefits are also likely to be key issues. **Nikki Tait, Chicago**

US ECONOMIC ACTIVITY

### Confidence keeps rising

Consumer confidence, a key indicator of future economic activity, rose for the sixth consecutive month in April, the Conference Board reported yesterday. "Consumers are showing no signs of pessimism and no signs of curbing their strong spending habits," said Lynn Franco, of the board's consumer research centre. "They will continue to contribute significantly to this record-breaking economic expansion."

The business-financed study group reported its consumer confidence index rose nearly a full point to 134.9 from a revised 13- in March, a stronger performance than Wall Street analysts had expected. An index designed to measure consumer expectations for the next six to nine months had an even bigger increase, rising to 108 from 105.5.

In another sign of economic strength, sales of existing single-family homes were reported to have risen to a record high in March. **AP, New York**

COMPUTER 'BOMB'

### Canadians confident on Y2K

Virtually all large Canadian companies say their computer systems will be ready to handle the Year 2000 computer bomb, according to a comprehensive survey released yesterday. Statistics Canada, the government reporting agency, said the survey involving more than 10,000 organisations indicated that 99.5 per cent of companies with more than 20 employees expected to be Y2K compliant.

Preparations appear to be more advanced in private companies than in public institutions. More than half of large hospitals, for example, said they did not expect their critical computer systems to be ready until the last four months of this year. In contrast, 97 per cent of airlines and 91 per cent of electrical companies expect to be ready before September.

The survey also found that most small and medium-sized companies were prepared. Most companies that had tested critical systems found no unexpected problems had been revealed. **Edward Alden, Toronto**

**On the web** today

- Cub says harvest shows sugar's recovery
- Portland holding line in battle against urban sprawl

http://www.ft.com/americas

## Disney dispute starts to heat up

By Christopher Parkes in Los Angeles

With a pay and perks package worth more than $100m a year, Jeffrey Katzenberg was undeniably much valued as the head of Walt Disney studios. It was a pity he did not get along with his boss, Michael Eisner, chairman and chief executive.

Sparks from the friction, which dated from long before Mr Katzenberg stalked off to join Dreamworks in 1994, are now flying again in a Los Angeles lawyer's conference room serving double duty as a makeshift courtroom.

After a long stand-off, a retired judge has been summoned to arbitrate on Mr Katzenberg's breach-of-contract claim for up to $250m in bonuses, in a case which will also test his and Mr Eisner's credibility and temper.

With his first shots in Monday's opening statements, Bertram Fields, Mr Katzenberg's lawyer, openly questioned the honesty of Mr Eisner, while Lou Meisinger, representing Disney, dismissed as fiction his opponent's claim of a plot to deny the "arrogant" Mr Katzenberg his rights.

This set the tone for a face-off from which neither side seems likely to emerge untainted. Disney has already conceded it owes Mr Katzenberg substantial sums, and lost another skirmish when its request for the hearing to held in private was dismissed.

According to Mr Fields, the core issue was Mr Eisner's personal animosity towards the man who is credited with turning Disney's dead-in-the-water film division into one of Hollywood's great successes.

Whatever went before, there is no mistaking the turning point in dealings between the two men. That came in April 1994, following the death in a helicopter crash of Frank Wells, Disney president. It represented the loss of the cool business head which complemented Mr Eisner's creative gifts.

According to Mr Eisner's autobiography, Mr Katzenberg tackled him less than three days after the accident. "Either I get Frank's job as president or I'm going to leave the company," Mr Eisner recalled him saying, in *Work in Progress*.

The book, issued following a partial out-of-court settlement of the current case, is dotted with disparaging references to Mr Katzenberg. He is criticised for being outspoken and aggressive in public, cracking bad jokes, and being a poor representative for the company.

From an earlier time, when their paths crossed at Paramount, Mr Eisner remembered his "driven, relentless" style, and his physique which had once earned him the nickname "Squirt". While Hollywood thinks Mr Katzenberg will win this round, Mr Eisner may hope for revenge in the business arena, where winning really matters.

Disney results, Page 1, Second Section

## Close race to be the one to take over Panama canal

Martin Torrijos hopes to follow in his father's footsteps. **James Wilson** reports

During his 13 years as Panama's ruler, General Omar Torrijos' most famous quip was that he didn't want to enter the history books: he wanted to enter the canal.

The charismatic general partly got his wish. The treaties he signed in 1977 with President Jimmy Carter dismantled US jurisdiction over the canal zone, which had divided Panama for 70 years. They ensured the canal would be given to Panama at the end of 1999.

On the brink of that triumph, Panamanians will decide this weekend whether to reward another Torrijos – the general's 35-year-old son Martin – with his own place in history.

If Martin Torrijos wins the presidential election on Sunday and receives the canal on December 31 as the culmination of his father's treaties, it would complete a remarkable circle of fate.

But his own political fate hangs in the balance as polls predict a tight contest with Mireya Moscoso, leader of the largest opposition party.

In a country where political power has often come down the generations, it might seem a foregone conclusion that another Torrijos would one day lead the country.

The treaties cemented Gen Torrijos' place as one of Panama's most admired, if contentious, figures: a coup leader and a left-leaning pragmatic reformist, ally of Fidel Castro and Jimmy Carter alike.

Martin Torrijos, left, leads polls but Mireya Moscoso, right, pictured greeting schoolchildren at Portobelo 90 miles north-west of Panama City, is not far behind AP

Since Mr Torrijos entered the presidential race as the candidate of the Democratic Revolutionary party (PRD), it was inevitable he would take every opportunity to invoke his father's name.

The general, who was killed in an aircraft crash in 1981, founded the PRD and is revered by its rank and file. "Omar Torrijos lives!" goes one campaign song. "Consensus is the *torrijista* philosophy and Martin is going to continue with that," says José Huerta, a PRD worker, wearing a watch with Gen Torrijos' picture on it.

While Panama suffered Manuel Noriega's corrupt regime a decade ago, Martin was working in Chicago for McDonald's. Only in 1992 did he return and throw himself into the PRD. In 1994 President Ernesto Pérez Balladares made him deputy interior minister. Two years later he was elected secretary-general of the PRD's youth wing, giving him a platform for a last-minute presidential bid when Mr Pérez Balladares was last year denied the right to re-election.

Age and name may suffice to propel Mr Torrijos into the presidency. If so, however, it may be a vote based more on hope he can recreate something of his father's aura, rather than on any firm evidence that he is capable of doing so. He is certainly not overly charismatic. The strongest image of him is as a devoted family man – in contrast to his father.

In his campaigning, which culminates today with a rally for the party faithful, he has often been dull and nervous.

The Torrijos camp certainly appears to be increasingly anxious over the result. Since last week two polls have shown a narrow lead for the crowd-pleasing Mrs Moscoso, who wrapped up her campaign in front of a large crowd last Sunday.

"Doña Mireya" also claims a proud political inheritance – that of her late husband, Arnulfo Arias, who in a long career was elected and ousted three times as president, and denied further wins by fraud. He was chased from office by the then Colonel Torrijos and other officers in 1968.

In the face of Mrs Moscoso's powerful claim to be the candidate of change, Mr Torrijos has seemed defensive, bristling at charges that he will bring more of the economic adjustment policies followed by Mr Pérez Balladares, which many Panamanians have resented.

Advisers have kept him away from press scrutiny. "We will do whatever is necessary," he told a recent executives' conference when asked if he would continue the Pérez Balladares economic line.

Foreign investors, however, seem inclined to see Mr Torrijos as the safest bet. Mrs Moscoso's brand of populism is viewed with suspicion, despite her assurances.

The third candidate is Alberto Vallarino, chief executive of one of Panama's largest banks, but he lacks the big party support of his rivals. "For us the PRD is really the only choice," said one western diplomat.

Adding spice to the contest is the bearing it has on two other Torrijos legacies. First there is the PRD itself, which has never peacefully given up power at a presidential election.

Rehabilitated under Mr Pérez Balladares, it has nonetheless still been heavily influenced by the military-era dinosaurs. Its reaction to Sunday's result will be closely watched.

Even if Mr Torrijos wins, his lack of experience has awakened suspicions that an intransigent old guard will still hold the reins of power, precipitating a debilitating struggle for him to assert control.

Then of course there is the treaty – the canal handover and the departure of the 4,000 remaining US troops. Panama's next president will guide the country through this crucial and uncertain period.

Yet so far the campaign has centred on domestic issues such as jobs, health and education. "The campaign looks like politics as usual during a very unusual moment," says Ms Scranton. "You wouldn't know that such a historic transformation is under way."

REGIONAL PARLIAMENT A WEEK BEFORE ELECTIONS, PROSPECT OF LINK WITH PRO-EUROPEAN LIBERAL DEMOCRATS IS RAISED

# Coalition may be formed in Scotland

By Andrew Parker, Political Correspondent

The prospect of a coalition of the Labour and Liberal Democrat parties running the new Scottish parliament was raised yesterday. The first elections to the parliament will be held next week.

Tony Blair, the prime minister, is keen to see the governing Labour party form an administration with the pro-European Liberal Democrats in the parliament. Nevertheless the two parties yesterday denied claims that they agreed before the 1997 national elections to work towards a coalition in Scotland.

Mr Blair's staff fear that some of the Labour candidates may not follow the party line after the Scottish elections. Despite one opinion poll last week suggesting that Labour will secure an overall majority, the proportional voting system means the party is unlikely to gain more than 60 of the 129 seats.

A Labour official said the two parties working together in the new Scottish administration was the preferred outcome. "Given we worked together to create the Scottish parliament in the first place, this is the right outcome," the official added.

A survey of Labour candidates has shown that a significant number are opposed to the party's use of the private finance initiative to build new schools and hospitals. The initiative involves attracting private funding to public projects. Others are opposed to the introduction of student tuition fees.

If a coalition was formed, the Liberal Democrats could prevent leftwing Labour members of the parliament impeding the new administration. In a new biography of Peter Mandelson, the former cabinet minister, it is claimed that Mr Blair and Paddy Ashdown, Liberal Democrat leader, agreed in 1995-96 to aim for a coalition in the Scottish parliament.

Donald Macintyre, author of the biography, writes that the two leaders met in secret and agreed to work towards a coalition "in the event of Labour getting no overall majority, or an unworkably small one".

Labour and the Liberal Democrats certainly reached a pre-election agreement on constitutional reform, which included a blueprint for the Scottish parliament. But the two parties yesterday denied that the talks on reform ever focused on coalition.

Donald Dewar, chief minister for Scotland in the Blair government, said: "There is no deal. I have no agreements or arrangements with the Liberal Democrats."

But one Liberal Democrat involved in the pre-election talks said he was convinced Mr Dewar and Jim Wallace, Scottish Liberal Democrat leader, could reach an agreement to work together in a Scottish administration. "They understand one another. Their instincts are the same. If they can't make it work nobody else can," the MP added.

Alex Salmond, Scottish National party leader, said Scots had a "right to know" what was agreed between Mr Blair and Mr Ashdown.

# Bombs unlikely to explode into votes for the far right

Extremism has little hope of matching its success in other European states, **Deborah Hargreaves** and **Jimmy Burns** write

The far-right British National Party is mounting its biggest campaign ever for the European parliamentary elections on June 9. At the same time, police are hunting a splinter group from the BNP which is thought to include the anonymous callers who claimed responsibility for two recent nail bombs in areas of London with large ethnic minority populations.

But these events do not mean rightwing extremism is on the march in Britain. Far-right groups have a long tradition on the fringes of British politics, but have never achieved the sort of political success enjoyed by their counterparts in continental Europe.

Partly it is the British non-proportional electoral system that denies minority parties any seats in parliament. The BNP contested 55 seats at the national election in 1997 and gained five per cent of the vote in three of them. But in two of those, their candidates had the same name as the winning Labour party candidate.

The extremist party won a seat on a local council in east London in 1993, but lost it soon after. The party has never polled more than one per cent of the national vote. This compares with a strong political showing for parties in Italy, France and Austria where far-right parties gain between 15 and 20 per cent of the vote in national elections.

Rightwing groups in Britain have not managed to shed their image as thugs and skinheads and hold little attraction for intellectual extremists. Yet the far right in Britain has a long history. Sir Oswald Mosley left the Labour party in the 1930s and later founded the black-uniformed and anti-semitic British Union of Fascists. But support for it was short-lived. Since then, there have been several resurgences of support for rightwing parties, but they have never entered the political mainstream.

The BNP is now trying to foster a more respectable image and court disaffected Conservative voters by championing anti-European policies. "On paper, the party is even dropping its policy of compulsory repatriation for ethnic minorities," said Nick Lowles, co-editor of Searchlight, a publication that monitors neo-nazi activity. But he added that the speeches at its annual rally did not reflect that moderation.

Combat 18, the most notorious of extreme-right British groups to emerge this decade, split from the BNP as it tried to broaden its electoral base. Originally some of its members are believed to have provided security for the BNP, but the group claimed the party was going "soft" and adopted more agressive tactics such as football hooliganism and attacks on bookshops and ethnic minorities.

Combat 18 and other rightwing groups appear to be increasingly influenced by US white terrorist organisations. "They believe electioneering is never going to win, so turn to terrorism," Mr Lowles said. Their concept is of total war against the state waged by individuals or small groups acting without any command structure.

Paul Wilkinson, professor of international relations at St Andrews University in Scotland and a leading UK specialist on terrorism, said: "These groups see themselves engaged in an increasingly violent campaign of provocation culminating in apocalyptic conflict between the races as we enter the new millennium."

According to a European intelligence source, UK neo-nazi extremists have been known to turn up for meetings of similar groups in northern and southern Europe. There is also increasing dissemination of racist and violent propaganda through the internet.

UK extremists tend to move in and out of organisations, adopting new names as they go along, engaging in what they call "leaderless resistance". The White Wolves, believed to be a breakaway group from Combat 18, have signed threatening letters to MPs and Asian and Jewish institutions.

Organisations with which British neo-nazi groups are known to have had contacts with in recent years include Sweden's Vitt Ariskt Motstand (White Aryan Resistance Movement) and similar organisations in France and Germany, as well as revived elements of the Ku Klux Klan in the US.

The number of activists in extreme neo-nazi groups in the UK is believed to be about 500, although police believe that there are far fewer prepared to carry out terrorist attacks.

Jack Straw, home secretary, yesterday visited Brick Lane in east London, scene of the most recent bomb attack, with Oona King, the area's MP Matthew Fearn

## NEWS DIGEST

ADVERTISING BY TELEPHONE

### BT joins Swedish group to offer free calls service

British Telecommunications is joining forces with GratisTel International, the Swedish group behind Europe's first advertising-sponsored telephone service, to offer free calls to customers prepared to listen to commercials during their conversations.

BT is today expected to announce the first UK trials of the Scandinavian technology, in which advertisements will be relayed at the start of each call, with further 10-second interruptions at regular intervals. No financial details are likely to be released, although GratisTel will hail BT as its largest potential telecommunications partner to date. The Swedish company, which is expected to come to the market later this year, has already captured 7 per cent of the fixed line network in Stockholm and has recently signed deals for mobile "sponsored services" with Bouygues Telecom of France and Sonofon, Denmark's largest cellular operator. **Tim Burt, Stockholm**

TRADE GAP

### Underlying deficit tops $4bn

The strength of the pound and the weakness of international demand has aggravated the UK's trade position, according to official figures published yesterday.

The UK's import and export performance showed a net £2.6bn ($4.2bn) deficit in goods and services during February, the Office for National Statistics said. That followed a deficit of £2.7bn in January – widening the UK's trade gap. Stripping out the effects of North Sea oil exports and trade in large erratic items such as aircraft and gems, the underlying deficit was £2.7bn, the largest ever recorded in a single month. The figure was worse than the financial markets had expected. The trade deficit with the UK's European Union partners was particularly poor at more than £1bn during February, compared with £700m in January.

The main reason for the worsening deficit has been the fall in exports **Richard Adams, London**

SINGLE CURRENCY SURVEY

### Top companies approve entry

Some 64 per cent of Britain's top companies are in favour of the UK joining the European single currency, a survey of the largest 350 companies will reveal today. The Reuters Survey of UK Larger Companies, which, by market capitalisation, received responses from 53 per cent of the country's top 350 companies, will show that only 36 per cent of Britain's leading companies are opposed to membership.

Of those who favour entry into monetary union, 35 per cent want the country to join in 2001, while 29 per cent want the UK to enter in 2002, and 21 per cent would prefer entry after 2002. Only 5 per cent of respondents said they would like immediate entry in 1999 and only 10 per cent wanted membership to begin in 2000.

Although the majority of respondents thought that sales, profits and share price performance would remain unchanged under Emu, 58 per cent of all respondents said that they believed Emu would lead to improved financing costs. **Sathnam Sanghera, London**

OPPOSITION PARTY POLICY

### Threat to block food imports

An agriculture policy paper issued by the opposition Conservative party yesterday included a threat to block food imports from European Union countries which failed to meet British welfare standards. A Conservative government would seek to ban poultry imports where hens were fed antibiotics and feedstuffs which are illegal in Britain.

"All poultry imports that do not meet the standards required here should be banned," said Tim Yeo, the party's chief agriculture spokesman. Party officials admit that some lawyers believe such an action would be illegal under international law. "Our advice is that it might be legal under Article 36 of the Treaty of Rome, which covers standards of products." **George Parker, London**

TRADE UNION BANKING GROUP

### Plan to benefit members

Unity Trust, the trade union banking group, may extend its services to members of unions. "We are carrying out a feasibility study and hope to make this move in the next three to four years," said Sir Dennis Landau, the group's chairman yesterday.

Unity Trust was established in 1984 by a group of trade unions to provide them with financial services, loans and advice. Until now its main activity has been to deal directly with the unions and not members. Sir Dennis said it would require a substantial commitment by unions to strengthen the group's financial base. The bank yesterday announced pre-tax group profits rose by 15 per cent to a record £2.04m. ($3.28m). **Robert Taylor, London**

ENDANGERED SPECIES

### Developers must move newts

Developers of a technology park face a bill for £200,000 ($322,000) after discovering a colony of rare great crested newts (small amphibians) on the site of the £10m development under way near the north-west England coastal resort of Blackpool. Workers will now search the site on their hands and knees and move the newts, which are an endangered species protected by law, to a nearby nature reserve.

"This is a very rare species which is in decline and once we knew about their presence, creating a home for them to live in peacefully and safely became a priority," said the Blackpool Challenge Partnership, the developer.

# Deal agreed on search for IRA victims' graves

By John Murray Brown in Dublin

The governments of the UK and Republic of Ireland yesterday agreed to set up an independent panel to locate the graves of victims of the Irish Republican Army.

Some victims' bodies have remained undiscovered for almost 20 years.

The agreement was signed in Dublin by Mo Mowlam, chief Northern Ireland minister in the UK government, and John O'Donoghue, the Republic's justice minister. It is expected to be passed into law in both jurisdictions in the next few weeks. The commission will be jointly appointed by the two governments.

The proposed legislation will make any evidence gathered during the location of the remains inadmissible in future prosecutions. However police on both sides of the border will be permitted to use evidence gathered in any other way.

The agreement follows a statement by the IRA last month that it had located the graves of nine people after an investigation by one of its senior activists.

Three of those on the list were said by the IRA to have been former IRA members, two working as agents for the British Army and one for the Northern Ireland police. All were said to have been "court martialled" before being killed. The other six were civilians who had confessed either to being agents or to stealing IRA weapons for use in robberies.

The IRA described its decision to reveal the whereabouts of the graves as "a sincere attempt to do all within our power to rectify an injustice for which we accept full responsibility".

The decision to offer immunity represents a further gesture to persuade the IRA to decommission its arms. The Ulster Unionist party insists that the IRA weapons handover has to happen before it will join a government with Sinn Féin, the IRA's political wing.

An opinion poll in yesterday's Irish Times newspaper suggested that there was still public support in Northern Ireland for last year's Good Friday peace agreement. The poll recorded that 54 per cent of those interviewed sided with the unionists in seeking some decommissioning before the executive is formed.

Paul Murphy, the UK's Northern Ireland political development minister, said the poll, which showed 73 per cent of people in favour of the agreement, should help local politicians.

# Battle opens against EU bureaucracy

By David Wighton, Political Correspondent

The UK government is to press for an overhaul of the regulatory process in the European Commission as part of its drive against excessive bureaucracy. Jack Cunningham, minister for the Cabinet Office, yesterday pledged to use the opportunity presented by the resignation of the Commissioners to promote reform – including the formation of a regulatory impact assessment unit in Brussels, the commission's home.

This would mirror the existing unit in the UK Cabinet Office which is to be given greater powers to curb regulation that imposes a disproportionate burden on business. The move was welcomed by the Fair Regulation Campaign, a business grouping formed to push for changes to the regulatory process in the UK and Brussels.

Adair Turner, the director-general of the Confederation of British Industry, the main UK employers' organisation, which is backing the campaign, said the regulatory impact assessment introduced by the government could be significantly improved.

"We will be working with the UK government and EU institutions to ensure that unnecessary costs and administrative burdens are really rooted out," Mr Turner said.

Mr Cunningham used a speech to the Social Market Foundation to enlarge on initiatives announced in last month's policy paper on modernising government.

At the centre of the new strategy will be an expanded Better Regulation Unit, to be renamed the Regulatory Impact Unit. All government departments will have to provide the unit with detailed assessments of the impact of any regulatory proposals as soon as they are seriously considered.

This will apply when ministers or officials are seeking to clear a new proposal for legislation or a UK negotiating line on European Union proposals. Mr Cunningham said the changes would give the Cabinet Office the same sort of influence over regulatory decisions as the Treasury has over public spending issues.

Throughout the speech, Mr Cunningham stressed the high priority that the prime minister has given to the need for cultural change in the government machine.



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Invensys plc, Carlisle Place, London [illegible], UK. Tel: +44 (0) 171 [illegible]. Web site: www.invensys.com All amounts relate to BTR 12 months to [illegible] and Siebe 12 months to [illegible]. Market values as at close of trading on [illegible] April 1999.

invensys

Strong on saving: Leif Johansson says shareholders will expect companies to use environmental strategies to exploit opportunities for cost-cutting

**MANAGEMENT** SUSTAINABLE STRATEGIES

# Greener profit drivers

Developing environmental compliance and eco-friendly products can enhance company performance, reports **Tim Burt**

Does it pay to be "green"? Some financial analysts remain sceptical, but a study by seven leading companies suggests environmental policies bring real benefits to shareholder value.

The two-year investigation across industries shows that improving environmental compliance and developing eco-friendly products can enhance earnings per share and profitability. Further, the report warns that institutional investors are becoming increasingly wary of companies that ignore or play down the importance of the environment.

"Investors are beginning to look at the downside risk of investing in companies that are either only just complying with environmental law or those companies that make empty mission statements about it," argues Leif Johansson, chief executive of Volvo and chairman of the consortium.

The consortium comprises Imperial Chemical Industries of the UK, Volvo, Unilever, Monsanto of the US, Deutsche Bank, Electrolux of Sweden, the world's largest household appliances group, and Gerling, the German insurer.

Despite their varied backgrounds, Mr Johansson says that the contributing companies share a belief that the environment promises to be a profit-driver.

At the pre-production level, companies that are environmentally aware derive savings from improved management of raw materials and energy resources.

Volvo's energy consumption has been cut by 15 per cent since 1995. Water consumption has been cut by 24 per cent and solvent emissions by 44 per cent. Anders Kärrberg, Volvo's director of environmental affairs, says: "We set out to reduce the cost of environmental compliance across the group; the benefit is clear at the bottom line."

On a crude correlation, the 15 per cent cut in energy consumption has occurred at a time when Volvo's earnings per share rose 45 per cent.

The importance of cutting utility and raw material costs is also endorsed by Unilever, the Anglo-Dutch consumer products group. "We have increased the efficiency of packaging lines in areas such as ice-cream," says Bart Sangster, Unilever's head of safety and environmental assurance. "It is quite simple: more efficiency means less waste – we produce the same volume more profitably and the margin rises."

The consortium, which also consulted companies as diverse as DaimlerChrysler, BP Amoco, The Body Shop and 3M, says sustainable strategies are beginning to feature more prominently as a "pre-qualifier" for winning contracts or investment approval in emerging markets.

Volvo has been forced to satisfy increasingly stringent environmental demands in India and China, two countries where it hopes to build a strong presence in trucks and buses. Closer to home, the company found 80 per cent of buyers in the German and Swedish fleet market put environmental performance as a crucial factor in deciding which models to acquire.

However, some investment banks consulted by the consortium question the direct link between sustainability and shareholder value, whether in raw material management or product compliance. Banks such as J.P. Morgan, Morgan Stanley Dean Witter and Lehman Brothers agreed that improving environmental compliance could help profitability, but only because it was a natural by-product of other "value drivers" such as restructuring and more innovative marketing.

Unlike pension funds and asset management groups, investment banks tend to value companies on trading performance rather than prospects.

The competitive advantage of producing greener products could be threatened, moreover, by consumer attitudes. There are signs that consumers are reluctant to pay high prices for environmentally friendly products that manufacturers have an obligation to make as green as possible.

On the other hand, Electrolux, the household appliance group, has enjoyed rising demand for its green range even though it is sold at a higher margin than standard models. It also makes money from the higher servicing requirements of green range dishwashers or refrigerators.

Last year, Electrolux's green range contributed 16 per cent of total sales and 24 per cent of gross margins. The company says it is reducing consumer costs because products such as freezers are 15 per cent more energy efficient than in 1997.

Nevertheless Vanja Marcovic, ICI's manager of European Union governmental relations, admits there is a limit to how much consumers will pay for green goods. She maintains the real benefit is sustained competitive advantage for the company that either cuts its manufacturing costs significantly or captures market share for greener finished goods.

Ms Marcovic also suggests that environmental focus helps stimulate innovation. Research that develops more sustainable manufacturing processes should feed through to earnings per share.

According to the consortium, such earnings can also be enhanced by tax incentives for companies exceeding environmental requirements. In Sweden, for example, consumers receive tax exemption for five years when they buy a car that meets the best environmental standards. In other European countries, there are subsidies for energy-efficient household appliances.

Although Mr Johansson admits it is difficult to prove a direct link between such factors and rising shareholder value, he is adamant that it exists.

His message is that institutional fund managers and individual shareholders will soon expect companies to use environmental strategies to maximise shareholder value by exploiting opportunities for cost-cutting or achieving premium prices.

"We have found, across different industries, that there are common ways of converting sustainability into higher margins," he says. "The companies that fail to embrace that challenge will be left behind."

*Sustainable Strategies for Value Creation. Consortium Report. The Performance Group, Meltzersgt 4, 0257 Oslo, Norway. Tel: 47 22 12 1460.*

PAUL TAYLOR
IN LONDON
**VIEWPOINT@FT**

# Software AG aims to move up in the world

Europe's IT services companies are outperforming their US counterparts, but the Continent still lacks big hitters in the software products market

Europe has a new quoted business software group. Shares in Software AG began trading on Monday and although the group will not make it into the world's top 10 software companies immediately, the shares are likely to be seen as something of a proxy for the health of the European IT industry.

The initial public offering values the Darmstadt-based group at €783m (DM1.5bn) and involved the sale of 14.5m shares on the Frankfurt stock exchange for €486m. According to Lehman Brothers, global co-ordinator, this was the largest ever initial public offering of a software company. It attracted institutional investors in Germany, the rest of Europe and the US as well as retail investors in Germany, and was viewed as a success, particularly given the current challenging and volatile market sentiment.

The IPO comes at an interesting time for the European computer software and services sector. While Europe generally lacks big hitters in the software products markets, its services sector is powering ahead.

European IT services companies in particular continued to outperform their US counterparts over the past 12 months, according to figures prepared by Regent Associates, the London-based IT mergers and acquisition specialist, and show higher valuations reflecting the strong growth rates experienced in Europe over the period.

Contrary to the historic norm, European services companies are now valued at 32 times earnings, compared with 24 times earnings for US companies, and two times their revenues (1.1 for the US). The top 10 European IT services companies are valued at 60 times earnings and four times sales while their US counterparts get 36 times earnings and 3.7 times sales. Although the Top 10 US companies make a marginally better return on sales (6.6 per cent against 5.8 per cent), the European services companies are on average more profitable. Led by Cap Gemini, which is preparing for a New York listing, services companies such as Altran Technologies and Sema Group are sustaining high growth rates and are preparing to penetrate the US market.

Regent Associates notes that within the US top 10, price/earnings ratios are more tightly clustered around the median value, while the variation is much more pronounced in Europe. The figures appear to confirm that the market in Europe is still more localised and less competitive than the US.

* * *

A study by Andersen Consulting provides an interesting insight into senior executives' internet usage around the globe and their comfort level using the web.

The study, based on a poll of 1,700 chief executives, chief finance officers and chief information officers among Fortune 1,000 companies in 24 countries, confirms that the geographic gap in access and usage among top executives is closing; but that differences in how, and how often, executives in various countries use the web remain.

For example, while more Japanese senior executives are going online at least once a week (81 per cent in 1998 compared with 72 per cent in 1997), they continue to be least comfortable using the web and rarely use it for online shopping. Only 15 per cent of Japanese executives expressed comfort using the net and only 13 per cent have ever shopped on the web. In comparison, almost two-thirds of American executives have shopped for goods online, significantly higher than the global average of nearly 50 per cent.

While the stark difference could reflect language factors – the internet remains predominantly an English language medium – it may also reflect cultural and other differences that could have important implications for future corporate financial and national economic performances. As Andersen notes, the increased web usage at senior level elsewhere may translate into executive support for the rapid expansion of electronic commerce that is widely predicted.

Globally, the study shows that executive access to the net increased slightly last year, from 90 per cent to 92 per cent. With the convergence of computing, communication and content technologies revolutionising the way business and government is conducted, it is no surprise that more senior executives are online more often, said Rudy Puryear, in charge of e-commerce at Andersen. What is surprising is how rapidly the global field of play is levelling for executives who understand, appreciate and use the technology. The challenge now is to bring e-commerce into their companies.

* * *

With product cycles continuing to shorten in the IT industry and PC penetration growing, the issue of recycling has inevitably moved to the fore. The environmental legacy created by one particularly poisonous component, the cathode ray tube inside traditional screens, is well documented. British businesses have already braced themselves for the bill to safely dispose of the estimated 500m old-style CRTs from PC monitors and televisions still in use.

The European Union legislation on the disposal of CRTs is well understood, but we could be heading for a bigger nightmare. Flat panel display screens are widely expected to replace CRTs over the next decade but much less is known about their contents or how to dispose of them safely – an issue that is already with us given the relatively short lifespan of portable PCs.

The advantages of buying flat screen displays are clear, says Jon Godfrey, commercial director at Technical Asset Management, one of Britain's leading IT recycling companies. It is known, however, that flat screens including liquid crystal displays (LCDs) contain a number of chemicals and gases. What little we know suggests there may be some very unfriendly substances.

But one of the problems is the secrecy surrounding the manufacture of LCD screens, a technology still in its infancy. Flat panel displays could be worse than anything we have seen so far, says Mr Godfrey. The lifespan of current flat panel monitors is much shorter than conventional screens. That means we are sitting on a problem that is going to escalate very quickly.

A proposed EU directive would require manufacturers to provide IT recyclers with special manuals and guidelines for the safe disposal of any hazardous materials they may contain. Such a move should be welcomed. But as Claire Snow, director of the Industry Council for Electronic and Electrical Recycling, notes, it is essential to know what these flat screen displays are made of if they are to be recycled, and for any hazardous substances to be disposed of safely.

So manufacturers and the recycling industry have to work together. We need to be ready and have a clearer understanding of what is involved well before legislation comes into force.



JOHN KAY

# Hairy issue highlights dilemma

Financial services regulators are facing the old quandary over whether to fill the industry's rule book with general principles or more detailed prescription

Last week the UK Financial Services Authority published its first occasional paper, on The Economic Rationale of Financial Services Regulation. Gripping reading, at least for those who find meetings of the Association of City Compliance Officers the social highlight of the year.

For the rest of us, it may be more fun to think about beards and the customs of Oxford university senior common rooms – and the lessons they offer for the economic rationale of financial services regulation.

It is not long since a French cultural anthropologist came to Oxford to help us understand the differences between the business environment in different countries. (We do not share the fashionable perception that the new international manager can operate in the same way wherever he or she finds herself). The anthropologist began by describing the rules for determining seniority in an American factory, rules that had been the subject of long negotiation between company and unions.

Seniority was based on date of joining the employer. If two or more employees arrived on the same date, their relative seniority was determined by the alphabetical order of their surnames.

However, if an employee changed his or her surname after (though not before) the date of joining, seniority was not affected. If Miss Zybrowski married Mr Aardvark and adopted his name, she gained nothing in terms of workplace rights. If her brother married her sister-in-law, once more nothing was changed.

The audience laughed, as they were intended to, at the absurdity. But we need to be careful.

The seniority rules at the American company were exactly the rules that determine seniority in the Oxford common room. You will not find these principles set out anywhere, but woe betide the unwary newcomer who mistakenly sits in the senior fellow's chair: or the established fellow who thinks they can ascend the ladder of seniority by changing their name. What the English listeners found absurd was not that such behaviour should exist, but that anyone would go to the trouble of writing the conventions down.

The exchange illustrated different approaches to rule-making, each consonant with the particular culture from which they have emerged. You can seek definition, and insist on due process: but in doing so create bureaucracy and lose flexibility. And you have to choose.

American regulation demonstrates one choice. If you thought American employers were free of burdensome rules, think again. Be sure you are aware of paragraph (g)(1)(i)(A) of the Occupational Safety and Health Administration's (OSHA) rules on respirators, which prohibits you from allowing tight-fitting respirators to be worn by employees who have "facial hair that comes between the sealing surface of the face piece and the face". (Federal Register, January 1988.) Beards, in other words.

But also stubble. The OSHA did not adopt this regulation without careful research. They supported studies in which volunteers grew beards over an eight-week period, submitting to regular tests of how well their respirators fitted.

Following these experiments, it was able to conclude that "individuals with excessive facial hair, including stubble and wide sideburns, that interfere with the seal cannot expect to obtain as high a degree of respirator performance as clean-shaven individuals". So it promulgated rules referring to the size, curliness and texture of the beard.

British regulation of the same issues takes the opposite pole. A UK employer must engage in a risk assessment. "The purpose of the risk assessment is to help the employer determine what measures should be taken to comply with duties under the relevant statutory provisions." (UK Health and Safety Regulations 1992).

And that is, essentially, it. You are in breach of the regulations if you have failed to engage in the risk assessment or have not adopted appropriate measures in the light of it. The Health and Safety Executive will advise and encourage, but what you do is up to you. Only beware of criminal penalties if you get it wrong.

The American structure tells you what you must do, the British system leaves responsibility with the employer. The American structure provides legal certainty, but at the cost of complexity, irrelevance and the stifling of any imagination or initiative.

And that is the basic choice in financial services regulation. Should we prescribe general principles, and leave it to companies to work out the basis of implementation: or should we offer detailed prescription as to how business should be conducted? Neither answer is universally right.

Go for specific regulation of behaviour when the objective and content of the rule are obvious, where it is reasonably easy to see whether or not the rule has been implemented, and where the content and purpose of the rule are unlikely to change much over time. So we need rules to say: do not release too much smoke into the atmosphere; do not sell food which contains poisonous substances; keep clients' money separate from your own.

Go for general principles when the purposes of the rule are more complex, where its application requires business knowledge the regulator cannot have, where observance is difficult to monitor, and where technology and markets imply that the rule book must change frequently. So we should leave it to those in the factory to decide how much stubble is acceptable in the workplace, what is best advice, and what information should be given to customers.

And never forget your obligations under the OSHA: use a long-handled tool to pick up items you drop into a confined space.

*The author is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. This column appears fortnightly.*

FINANCIAL TIMES SURVEY

# INDIAN BANKING AND FINANCE

WEDNESDAY APRIL 28 1999

Annual report

## Political upheaval is hindering reforms

**The fall of the Indian government has dashed hopes that the worst is over after three years of slow growth and limited progress on economic reform, writes Krishna Guha**

The curse of political instability has returned to haunt India with the fall of the Bharatiya Janata Party-led government.

On Monday, K.R. Narayanan, the president, dissolved parliament and ordered new elections, putting an end to 10 days of frantic political manoeuvring. Congress, the main opposition party, had struggled in vain to forge an alternative government. It failed to secure the support of regional parties which hold the balance of power in Delhi.

Months of uncertainty and decision-making paralysis lie ahead. It may not be possible to hold elections before the monsoon ends in September. "There is no doubt that the entire process of economic reform has been pushed back," says Yashwant Sinha, outgoing finance minister.

Investors drew some comfort from the recent passage of the BJP's market-friendly budget by consensus. But the fall of the government dashed hopes that the worst was over after three years of slow growth and limited progress on reform.

In the first three months of the calendar year the benchmark BSE-30 index rose 22 per cent. This followed signs that the BJP had mastered the art of coalition government and returned to economic orthodoxy after a year of ill-fated forays into industrial policy and meddling in the affairs of state-owned companies and banks.

A spirit of optimism swept Bombay, the financial capital. Advertisements for mutual funds, boasting spectacular returns on investments in software and other sun-rise industries, sprang up across the city.

The advertisements are still there, but the heady hopes of the Bombay spring have evaporated. In the first three weeks of April the BSE-30 index fell about 10 per cent, with a further 5 per cent fall on Monday, while other Asian markets marched ahead.

Investors are left to speculate what policy programme a future administration will undertake. The prospects for structural reforms, such as the opening up of the insurance sector and strategic sales of state-owned industry, look poor, at least until a new election. Important administrative decisions also face serious delays.

Whoever comes to power faces an uphill battle to stir life into the economy. After three consecutive years of 7 per cent growth in the mid-1990s, growth fell back to about 5 per cent – the figure most independent economists quote for last year.

Political rivals: Sonia Gandhi, Congress Party leader and Atal Behari Vajpayee, caretaker prime minister

AP pictures: collage by Philip Hunt

Official figures are a little more upbeat. The Central Statistical Organisation estimates last year's growth at 5.8 per cent, up from 5 per cent the previous year. But this improvement stems entirely from growth in agriculture.

Industrial growth last year fell from 6.9 to 3.9 per cent. Fresh capital investment by companies, at Rs 600bn, was 63 per cent lower than in 1995-96 and 33.7 per cent down on 1997-98.

Foreign direct investment, Rs 65bn for the first 10 months, was down 29 per cent. The paramount need is to raise industrial growth, says Bimal Jalan, governor of the Reserve Bank of India.

Government expenditure swallows the lion's share of household savings and is increasingly spent on salaries, subsidies and loan repayments, rather than capital investment.

Gross market borrowing hit a record Rs 940bn last year, Rs 311bn more than in 1997-98 and Rs 150bn over budget. The supply of credit to the productive sector of the economy is further constrained by serious problems within the banking sector.

Banks and other financial institutions are struggling to digest a wave of bad debts from industrial loans made in the early 1990s, when deregulation and easy money prompted a race for scale. Many of these loans soured after cost overruns, a decline in domestic growth and sharp falls in world commodity prices following the emerging markets crisis.

"If you take the growth in bank deposits, it has been phenomenal – Rs 1,250bn last year," says Deepak Parekh, chairman of Housing Development Finance Corporation. "But what are banks doing with these deposits? They are not finding avenues for investment. Instead, they are playing safe and buying government paper."

For the past five years the capital markets have remained depressed. The proportion of savings invested in shares fell from 1.8 per cent of gross domestic product in 1993 to 0.2 per cent in 1998.

Many industrial companies last raised equity in 1993 or 1994. Since then, they have relied on debt, resulting in mounting interest charges. "Now is the time that they will have to raise equity or they will not survive," says Nimesh Kampani, chairman of J M Morgan Stanley.

In its 13 months in office, the BJP-led government made two very different attempts to kick-start the economy. Its first budget tried to trigger a recovery through higher public spending, greater protection and sops for troubled industries. It failed.

This year, the BJP turned to the capital markets as the focus of its second budget. "A vibrant capital market is essential," says Mr Sinha. He hoped to engineer a revival in the markets which would drive recovery in the real economy.

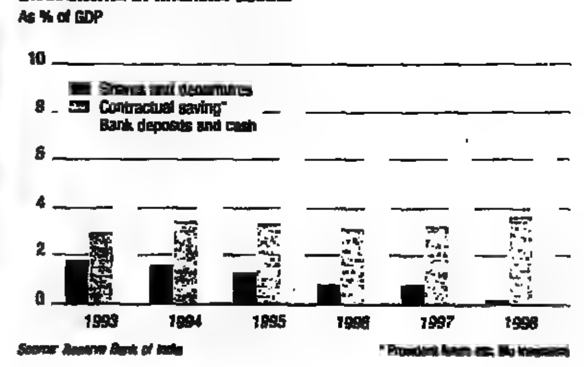
The strategy had several components – carefully targeted tax breaks, a bail-out for Unit Scheme 64, the troubled investment fund, interest rate cuts and promises of structural reforms to boost exports and foreign investment.

"The financial sector was the one which got maximum advantage from the budget," says Hemindra Kothari, chairman of DSP Merrill Lynch. "It is extremely positive for the mutual fund industry."

The budget cuts capital gains tax from 20 per cent to 10 per cent, makes mutual fund dividends tax-free in the hands of investors and gives further tax concessions to equity funds for the next three years.

Mr Kothari says private sector funds could double in size in the next two years. "It will create a new force in the capital markets," he predicts.

**Investments in financial assets**
As % of GDP




Source: Reserve Bank of India

* Provident funds etc.

Investment bankers feel the outgoing government was right to try to divert savings from the clogged banking system to the capital markets. "The money was going into the wrong sectors," says Uday Kotak, vice-chairman of Kotak Mahindra, Goldman Sachs' affiliate in India. "Resources are more effectively allocated through the market."

However, it is not clear if tax incentives alone can manufacture a sustained capital market revival in the absence of better fundamentals.

The budget does little to remedy the banks' problems and may even make their difficulties worse. Public sector banks with bloated cost structures will struggle to match returns offered by tax-favoured mutual funds. So, too, will the development financial institutions. These term lenders have lower costs, but no access to captive rural savings. And, if debt markets develop, more companies will have alternatives to bank loans. "Disintermediation is a big challenge," says M S Verma, former chairman of State Bank.

"In the past three years, this challenge has not intensified because the capital markets have not been very active. But as it starts operating it will have a very serious impact on the banks."

Pressure on margins is already severe. There is a clear danger that a mounting number of banks will find their profits fall below the level needed to write off bad debts. Without capital injections they will be effectively bankrupt.

This threat is driving a fundamental change in the relationship between banks and corporate borrowers. Lenders are pursuing bad debts with unprecedented vigour, seeking to recover security and imposing tight conditions on new credit.

This comes at a time when some state-owned institutional shareholders are also flexing their muscles. The demands are pushing corporate restructuring, which may in time help both asset quality and industrial competitiveness.

But activism, in a tightly confined environment, is not enough to restore India's financial system to health. Reserve Bank officials say radical structural reforms are needed such as reform of socialist-era bankruptcy and labour laws and further privatisation of the banks.

They want lower public spending and more foreign investment in infrastructure to brighten prospects for industry. These are precisely the kind of structural reforms which the evolving political equation looks unlikely to deliver.

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**ECONOMIC OUTLOOK** by Mark Nicholson in New Delhi

## Uncertainty prevails

**India's chief structural impediment to growth remains the perennial problem of its high fiscal deficit**

If the gods smile on India – chiefly in the form of a twelfth successive "good" monsoon, beginning in June – the economy will this coming year edge back towards the 7 per cent GDP growth rates achieved after the first flush of economic reforms in the mid-1990s.

That, at least, is what the Bharatiya Janata Party-led government was budgeting for. And there were indeed modest signs they were right, and that India's lumbering economy was cautiously regaining momentum after two disappointing years of slow industrial and export growth.

Then came the government's ouster in mid-April and the return of the blight of political uncertainty which has sporadically dogged the Indian economy for the better part of four years. As this survey goes to press, it remains unclear whether the new administration will be able to revive jolted business sentiment. The BJP's largely popular budget, at least, was passed unchanged.

According to estimates in that budget, GDP growth for the fiscal year just ended will recover slightly to 5.8 per cent from 5.1 per cent a year earlier, driven by a strong rebound in agricultural output. In his February budget, Yashwant Sinha, finance minister, reckoned on growth this year of 6.7 per cent to 7 per cent, with inflation at comparable levels over the next 12 months. Most private sector economists are less sanguine, estimating growth rates around 5 per cent next year. But even they are now charting some signs of life in central sectors of the industrial economy, now well into a third year of sluggish growth.

Commercial vehicle sales, for example, have posted strong growth in the first two months of the year. Cement production, another lead indicator, are also into their fourth successive month of growth, averaging more than 9 per cent for the period. Moreover, output of staple foodgrains, including wheat and rice, could top a record 200m tonnes by the time the harvest is gathered in. The hope is that higher rural incomes – 60 per cent of Indians still work on the land – will drive consumer demand, setting the economy on a more virtuous circle.

Exports, too, are showing modest signs of life after two disappointing years. Though average export growth over the last fiscal year may prove flat or even slightly negative, values in dollar terms have perked up since November, showing successively growth rates of 3.8 per cent, 6.7 per cent and 8.5 per cent in January, the latest figures available. All of which comes as some relief to an economy which was already crawling before the buffeting of the Asian economic crisis, the effects of which on India's still fairly closed economy were modest and mostly manageable – the rupee, for example, gradually lost around 17 per cent against the dollar over the period, but without any alarming falls.

Mr Sinha also sought in his budget to offer further stimuli to growth, particularly through fiscal incentives in the housing sector, which the government believes will prove a strong pump primer for wider growth, and a raft of fresh incentives to agriculture. Days after the budget, the governor of the Reserve Bank of India, the central bank, chimed in by cutting base interest rates.

Altogether, Mr Sinha and his ministry team did much to improve India's economic mood – as indicated by the pleas from industry during the recent political crisis for the budget to be left intact.

A more open question, though, is the view of foreign investors, whose wariness of India was apparent well before the latest lurch into political uncertainty. Portfolio investment into India, for example, was negative last year, for the first time since the country opened its markets to foreigners in 1993. Foreign direct investment, of direct and considerable importance in addressing India's chronic infrastructure problems, is also down – with actual flows between April-December 1998 just $1.5bn, against $2.5bn for the period a year earlier.

Direct investment remains a particular worry. An authoritative government survey estimated in 1996 that India needed a total of $345bn of foreign investment between then and 2006 simply to address core infrastructural needs – that is roads, power, telecoms, ports and urban services. In this light, FDI hovering at around $1.5bn-$2bn a year, is a grave failure.

The reasons for such poor performance eight years into an ostensible drive to attract foreign funds into these sectors are complex and partly structural. They include flawed policy decisions, policy changes and a prevailing uncertainty, notably in telecoms, over unresolved regulatory issues, political difficulties in exacting economic user fees for such things as power and water, and tedious and awkward bureaucratic procedures.

Yet drawing considerably bigger sums of foreign investment may prove of increasing importance to India's near-term macro-economic performance, and not only for the later growth it would engender. Bigger flows will be vital in the next few years to shore up India's manageable, but vulnerable, external balances. Also for a host of structural reasons, India cannot count on strong export growth for the next few years.

The finance ministry reckons even 5 per cent growth this year would be a "good" performance. In this lies an acknowledgment that India's exporters face tough infrastructural hurdles, still lack international competitiveness and quality in many sectors and are effectively barred, in the case of the legion of "small scale industries" by outdated and politically motivated restrictions from large-scale investment and growth. But India's chief structural impediment to growth remains the perennial problem of its high fiscal deficit. Successive governments have laboured and largely failed to rein in a deficit which last year exceeded a target of 5.6 per cent of GDP, coming in, officially, at 6.5 per cent. Some western economists believe the final figure may even be 6.7 per cent. Combine this with the deficit of India's state governments, and India's total public sector borrowing requirement hovers uneasily around 10 per cent.

Achieving the fiscal target rests this year, as in previous years, on meeting a highly ambitious target for disinvestment. Mr Sinha has pledged to raise no less than Rs100bn through state asset sales. Even senior officials involved in India's so far unimpressive disinvestment programme, doubt this is possible.

Last year, the government took credit for Rs90bn in "disinvestment" receipts. But virtually all of this was accounted for by a series of highly controversial share buybacks and cross-holding among India's biggest public sector oil and telecoms companies. The move sharply hurt share prices in most quoted public companies, jaundicing the market's view of future sales of public sector undertakings. Mr Sinha's aim was to reap his Rs100bn largely through "strategic sales" – direct placements of equity with private, and most likely foreign, direct investors.

The proposed disinvestment programme looked ambitious enough before India's latest political shifts. With India's fractured parliament now more delicately poised than ever, it may prove a considerable challenge to press ahead with anything like as ambitious a plan for state disposals.

## Political turmoil

From previous page:

Investors hope this is a passing phase, a problem of party politics in a hopelessly fractured parliament. "We're moving towards a two-party system, and that's good for reform," says an investment banker.

Perhaps. But regional and caste parties are here to stay and the obstacles to fiscal retrenchment and job-cutting restructuring are as much social as party political in nature.

Subsidies and public sector jobs provide the currency which enables India's democracy to mediate profound social change. Every emerging interest group wins its share of the cake. The imperative will remain whichever party gains power.

The radical surgery India needs looks unlikely to materialise. This does not mean that it is in imminent danger of financial crisis. The external environment is benign, with strong fund flows to emerging markets. Unlike east Asia or Brazil, India has a closed capital account. "There's no opportunity for capital flight, except perhaps to gold," says R Ravimohan, managing director of credit rating agency, Crisil.

The government can redeploy resources from the profit-making sector of the economy to meet rupee liabilities in the loss-making sector – for instance, in subsidies to troubled banks.

However, this drain imposes a cost which is the root cause of India's economic woes. Industry is uncompetitive in part because it borrows at uncompetitive rates. Capital accumulation is slow because savers receive poor rates of return. This consigns India to a low rate of growth.

Five per cent a year increasingly looks like a trend rate rather than a cyclical low. Foreign investors are beginning to think out the consequences.

An India which grows at 7 per cent is a big market and an emerging world power by 2020. An India which grows at 5 per cent remains a poor country.

**BANKING SECTOR** by Krishna Guha

# Tough decisions as competition rises

Deregulation is dismantling the barriers which separate India's banks and financial institutions, bringing them into competition for the first time

India's banks will shortly announce strong profits for the last financial year. But the figures will give a poor reflection of the underlying profitability of the banking industry.

Much of the gain will result from recent cuts to interest rates, which allow banks to mark to market their portfolio of government debt. At the operational level, the picture is much less encouraging.

Interest margins are falling throughout India's banking industry: both at the banks, and at the financial institutions (FIs), which traditionally specialise in long term loans for industry.

Lenders are awash with funds, but find little demand for industrial credit. Depositors have become increasingly price-sensitive, forcing banks to compete on savings rates.

Liberalisation has brought competition to what was once a tightly administered market for savings and loans. But little has been done to increase banks' ability to cut costs. Many banks with large branch networks – built up at a time of nation-building with the goal of bringing banking to a rural India of money-lenders and gold – are struggling to remain in profit.

"With economic reform taking place lots of challenges have been created," says G.G.Vaidya, chairman of State Bank of India. "Competition has increased. New players have come into the field and margins are under severe pressure."

Net interest margins at State Bank, for instance, fell from 401 basis points three years ago, to 357 basis points in the following year, and narrowed further last year, he says.

The rise in competition has a number of causes. Deregulation of interest rates has prompted India's public sector banks to compete with each other. They face a tough challenge from a new generation of private sector banks and foreign banks in India's cities.

"The private sector banks and also the foreign banks are getting their act together," says M.S.Verma, adviser at the Reserve Bank.

They are using new banking technologies – automated teller machines, plastic cards, telephone banking – to win market share from a small cost-effective branch network. Meanwhile, deregulation is dismantling the barriers which separate India's banks and financial institutions – bringing them into competition for the first time.

At present, this competition is only at the margins, due to differences in the liability profile of banks and FIs. But competition is taking place. Industrial Credit and Investment Corporation (ICICI) and Industrial Development Bank (IDBI) – barred from taking deposits – now compete for retail savings through savings bonds.

State Bank is planning to take 10-year deposits, and recently raised its target allocation to project finance to 30 per cent of advances. K.V.Kamath, managing director of ICICI, says competition will increase as the liability profiles converge – giving birth to universal banks.

"There will be no future for single product institutions," says Mr Kamath. "Avoiding becoming a universal bank will be impossible."

Deepak Parekh: 'Banks must tackle cost issues – diversification is not enough'

Bimal Jalan, governor of India's central bank, the Reserve Bank of India, accounces India's new credit policy on April 20 to representatives of all nationalised banks in Mumbai (Bombay) AP

G.P.Gupta, chairman of IDBI, disagrees. He says IDBI will remain commited to long term finance. "It is our core business," he says. But he too expects more competition from banks. Now the rise of mutual funds, and in future insurance products, threatens to jack up competition still further.

"We see our potential market as the Rs 1,250bn new deposits in the banking sector," says Ajay Srinivasan, managing director of Prudential ICICI.

The rise in competition comes at a time when demand for corporate loans is rock bottom. Quality companies borrow below the prime lending rate of 12 per cent, through commercial paper. This is a big threat to the financial institutions, which lack a captive market for cheap savings in the countryside.

The pressure is pushing banks and financial institutions to develop new areas of business – and driving a fundamental change in the function of India's banking industry. The old development paradigm of gathering retail savings for industrial loans is giving way to a new emphasis on fee-earning products and consumer credit. In doing so, banks are filing the gap left by the decline of India's non-bank finance companies.

"Going forward growth is going to be in the retail segment," says Mr Kamath.

Z.Cama, deputy chief executive of HongKong Bank in India, says middle class Indian consumers are increasingly willing to borrow to fund aspirational purchases. Spending on credit cards, for instance, is rising at a rate of 35 per cent a year.

However, the absolute size of the market for consumer credit remains small. The opportunity for volumes lies in home loans, a market given further tax concessions in the budget.

But pricing is tight in this market, too. "Every year competition is increasing," says Deepak Parekh, chairman of Housing Development Finance Corporation.

He says banks will not be able to survive just through diversification into retail. They have to tackle costs. Already three banks – Indian Bank, UCO Bank and United Bank – are loss-making, and only kept afloat by government support. Many others need margins of more than 300 basis points to pay for their costs.

"The majority of Indian banks are UCO banks," says a senior investment banker. Without serious efforts to cut costs, they have no long-term future. Mr Parekh says, however, that little has been done. "We have totally failed to make progress in selling branches and banks, or in closing banks," he says.

With 1.2m employees, India's banks are hugely over-staffed. Public sector productivity (revenues per employee) is about a fourth of the private sector. Costs are rising – last month the banks conceded salary rises of 12.25 per cent. "Some banks might find it difficult to bear this additional cost," says Mr Verma.

The Reserve Bank hopes to engineer mergers to promote consolidation. But potential buyers are wary of taking on hidden bad debts and high costs. "Mergers makes sense if you have full freedom to close down branches, retrench employees and cut costs," says Mr Gupta. "At present, these freedoms are not available."

However, bankers say the time when tough decisions will be forced on the industry is fast approaching. Union officials know this, too – thus the virulent reaction to planned job cuts at Standard Chartered. How soon, depends on how long India's government continues to divert funds into propping up a mounting number of weak banks. Says Mr Vaidya: "It is time to let the fittest survive."

**BAD DEBT PROBLEMS** by Krishna Guha

# More headaches ahead

While public confidence in state-owned financial institutions is intact, serious doubts remain over the banking sector's ability to digest bad debts already in the system

The spectre of bad debts hangs over India's banks, financial institutions and their investors. However, unlike other parts of Asia, this problem is not a result of external shocks. It is a domestic problem, with its origins in the souring of industrial loans disbursed in the late 1980s and early 1990s when India began its transition to an open market economy.

Last summer, financial sector shares plummeted to record lows on fears that a sharp rise in non-performing assets would collapse profits, threaten the viability of some big lenders and even the health of the system as a whole. Notwithstanding a recent improvement at the State Bank of India, the sector remains badly depressed.

"We are in the middle of a banking crisis," says a senior investment banker. "It may not be as severe as East Asia's situation, but it is a crisis."

Estimates of the total level of bad debts in the banking sector (banks and financial institutions) range from the official figure of about 14 per cent of loans to independent estimates of up to 30 per cent.

Although net of provisions, the figure is considerably lower, analysts feel there are more bad debts in the pipeline. Bankers say the problem is close to peaking – but few will hazard a guess at when it will decline. Investors distrust reported figures for non-performing assets. Most feel that Indian accounting standards – rigid in some respects, lax in others – do not accurately capture the extent of the problem, and suspect widespread "evergreening" (concealing of bad loans) takes place.

The problem is a reflection of the plight of India's heavy industry – which is struggling to survive tariff cuts, weak domestic demand and the collapse in global commodity prices following the East Asian crisis.

"It is going to put enormous strain on the system," says one of India's top bankers. Cracks have already appeared: Industrial Finance Corporation is practically bankrupt, as are three medium-sized banks. India's lenders are hugely exposed to troubled producers in steel, paper and textiles. They have little exposure to the sunrise sectors, software, media, fast-moving consumer goods and pharmaceuticals.

The crisis-hit steel industry accounts for 9 per cent of advances at Industrial Credit and Investment Corporation (ICICI), and 14 per cent at Industrial Development Bank (IDBI). "The way they are exposed to steel is a wonder," says a top official at the Reserve Bank of India.

The lenders face the dilemma of whether to extend further loans to support unfinished steel projects. This has become a political issue, amid allegations of lobbying by members of the government in favour of certain steel companies. Last month – after much deliberation – IDBI decided to extend a further Rs10bn to steel, and ICICI is expected to follow with about Rs 5bn. Bankers distinguish between pre-liberalisation loans to companies with no hope of surviving competitive markets and later loans to companies which face difficulties as a result of depressed commodity prices.

"Most of the loans in the sub-standard category are due to liquidity problems, not solvency problems," says G.G.Vaidya, chairman of State Bank. "These can be brought back and upgraded to standard."

Because of the tradition of consortium lending, banks and financial institutions are exposed to the same companies, but in different ways. Banks, obliged to park about 35 per cent of deposits in liquidity and cash reserves, have a big cushion of sovereign credit.

However, they are required to lend 25 per cent to priority sectors – including agriculture and small scale industry – much of which is irrecoverable. Banks have first call on cash and receivables, an easily realised form of security. But their advances are not fully collateralised, and in the absence of regular fixed repayments, recognition of bad debts can be difficult.

Financial institutions have neither the benefit of sovereign securities nor the problem of priority sector lending. Their loans are 100 per cent secured against assets – but this security is often not realisable due to India's socialist-era bankruptcy laws and over-burdened civil courts.

Bank chairmen and the heads of financial institutions each claim, on balance, to be better off. But the measures they are taking are similar: to contain future non-performing assets through improved appraisal and management systems, "and go after bad loans more rigorously," says Mr Vaidya.

ICICI has been most aggressive in pursuing defaulting debtors. "There has been a paradigm shift," says K.V. Kamath, managing director of ICICI. "Historically, looking at our role as development bankers, we kept on extending reliefs and concessions. When we finally enforced our rights to security, the legal process took 10 years. On a present value basis, it was worthless."

Now, ICICI gets tough quickly, and tries to win an early settlement. It claims a recovery rate of 70 per cent of debts settled in this way. Even IDBI, the "father of Indian industry", is putting pressure on its borrowers – imposing loan conditions including the right to convert debt into equity.

"We will promote industrial restructuring," says G.P. Gupta, chairman of IDBI. "This will improve the credit-worthiness of the borrower."

Meanwhile, the Reserve Bank is chalking out a timetable for progressively tighter disclosure norms, phased in to avoid disrupting the existing, debt-ridden system. Senior officials are confident that local problems can be contained without systemic danger.

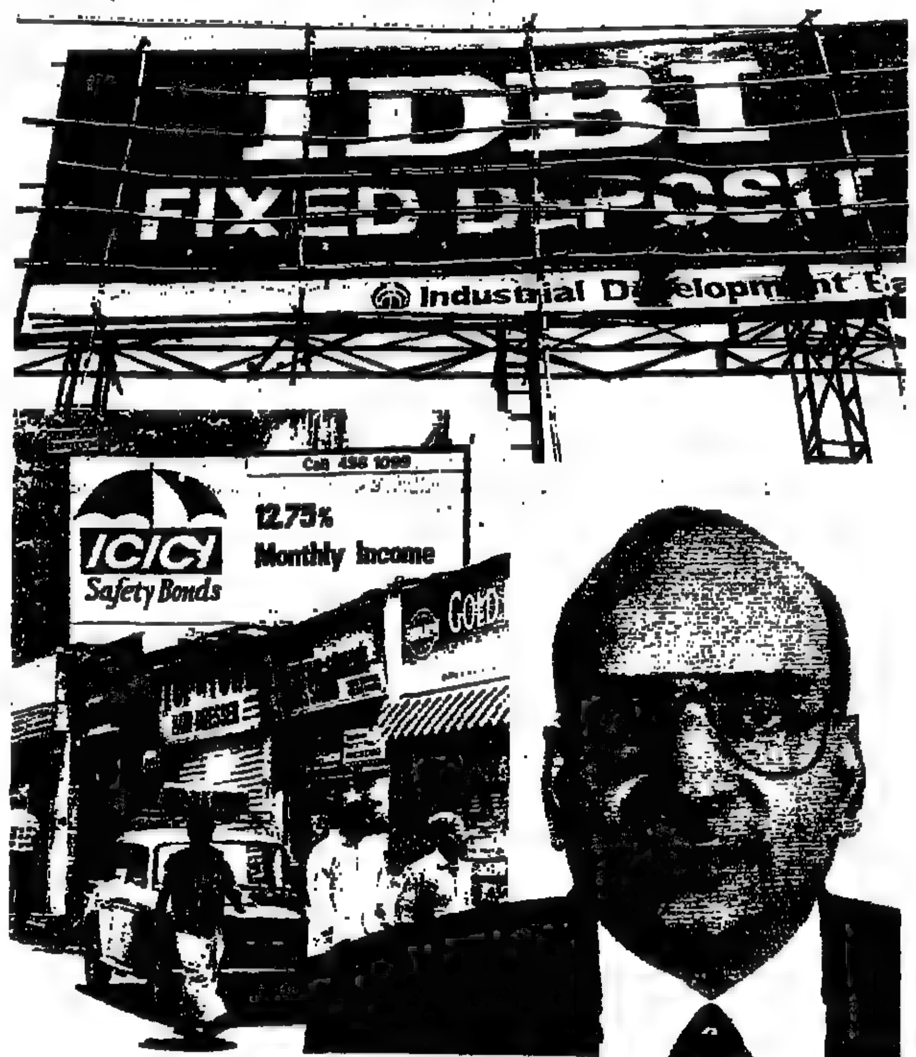
New tax breaks for provisions in the budget should help the situation. Public confidence in state-owned banks and financial institutions is intact – deposits flow into even bankrupt banks. Investors still buy bank debt, if not equities.

"India is a closed system," says R. Ravimohan, managing director of Crisil, a credit rating agency. Capital controls reduce the risk of a stampede: the money has nowhere to go. But there remain *serious doubts* over the banking sector's ability to digest bad debts already in the system, particularly if the industrial economy does not revive soon.

The entire sector is dangerously under-capitalised. Share prices (*see equity market report, page four*) are so low it is impossible to raise cost-effective funds from the stock market. So, banks are subscribing to each other's tier-two capital – raising systemic risk.

In last week's credit policy, Bimal Jalan, governor of the reserve bank, imposed a new ceiling on such cross-holdings. However, he also relaxed tough rules on the way banks report rescheduled loans – which analysts fear could offer new scope for "evergreening".

Privately, a top reserve bank official says there is an urgent need for privatisation of banks and extensive legal reform. "We need to depoliticise the entire mechanism of lending and recovery."




Lenders IDBI and ICICI are exposed to problems in the steel industry. Meanwhile, G.G.Vaidya, (above) chairman of the State Bank, is urging tougher measures on loan appraisal Picture: Sophie Whitfield

PROFILE
UNIT TRUST OF INDIA

# Fund manager plans a sweeping overhaul

*In India, it is almost axiomatic that fundamental reform only takes place in the face of crisis. This is exactly what is happening today at Unit Trust of India (UTI), the giant state-owned fund manager.*

P.S.Subramanyam, the new chairman of UTI, stunned India's markets last September by revealing that its biggest fund, Unit Scheme 64 (US-64), had a gap of more than a billion dollars between its assets and liabilities at its June 1998 year end.

The benchmark BSE 30 index promptly crashed and remained depressed for the rest of 1998. Now UTI is starting to implement plans for a sweeping overhaul of the fund, drawn up by the Deepak Parekh committee.

The first element of this overhaul was a Rs48bn state-funded bail-out, announced on budget day, and backed up by tax breaks for mutual fund investors. The injection of funds to stabilise US-64 helped launch the bull run which began that day.

However, the bail-out is only the beginning. The Deepak Parekh report calls for fundamental changes in the way UTI manages its funds and conducts itself in relation to its investors, its investments and the government. This could add up to the most far-reaching transformation to date of one of the pillars of India's state-owned financial sector.

UTI is India's biggest shareholder. It manages assets with a book value of Rs600bn – 84 per cent of the mutual fund industry. Even after a torrent of redemptions last year, US-64, its flagship fund, is India's biggest by far: 22m investors and Rs 160bn under management, more assets and more investors than the entire private sector.

But UTI has never operated like a conventional mutual fund manager. This reflects its origins in 1964, as part of the machinery of India's old administered economy. UTI mobilised small savings to provide debt and equity finance for industry that was shut off from foreign capital, and to enable public participation in private sector projects.

The US 64 fund – its first – garnered savings on an unprecedented scale, with an implicit promise of secure returns. "There was a certain philosophy," says Mr Subramanyam. "People did not come in with the intention of entering and exiting at net asset value [market] prices. They expected a regular income."

However, UTI's ability to ensure a steady return diminished sharply when India began to open its markets in 1991. "From being a trend-setter in its early years, the Trust turned laggard as it failed to adapt, in a timely manner, to the changing external environment," says the Deepak Parekh report.

P.J. Nayak, executive trustee of UTI, says the fund made mistakes in its asset allocation and risk management. The proportion of US-64's assets held in debt fell from 79 per cent in 1986 to 37 per cent in 1998, as it bought government disinvestment shares. But Mr Nayak says "the problem was, in a sense, a consequence of the way the scheme was structured".

UTI now accepts the need to transform US-64 into a regulated market-priced fund over a period of three years. However, it intends to do so at the prevailing unit price – not the current net asset value – in order to prevent capital loss to investors. This means UTI needs to bridge the gap between US-64's assets and liabilities.

The budget day bail-out helps: UTI will transfer depressed privatisation shares from US-64 at book value to a new state-backed fund in return for Rs48bn government bonds – a net gain of about Rs20bn. US-64's original sponsors are expected to chip in a further Rs5bn in permanent capital.

It profits, too, from the rise in the market this year. Yet there is still a gap between the unit price and net asset value. "It has narrowed, it is not eliminated," says Mr Nayak. UTI hopes to bridge the remaining gap through better fund management and net inflows of funds.

"I have acted to strengthen our asset management committees," says Mr Subramanyam. Independent members will form a clear majority on each committee. "Transparency, disclosures, all of that will follow."

Mr Subramanyam has doubled the number of equity analysts at UTI, re-assigned fund managers, and brought in a new accounting system. In a radical departure, UTI has started to demand regular presentations from companies it invests in, and to seek representation on their boards.

"Shareholder value enhancement can take place when governance practices improve in the corporates," says Mr Subramanyam.

Many industrialists are terrified: US-64 holds big stakes in dozens of India's biggest companies. The Deepak Parekh reports says UTI should negotiate strategic sales of these stakes. This would pave the way for a dramatic change in the ownership of corporate India.

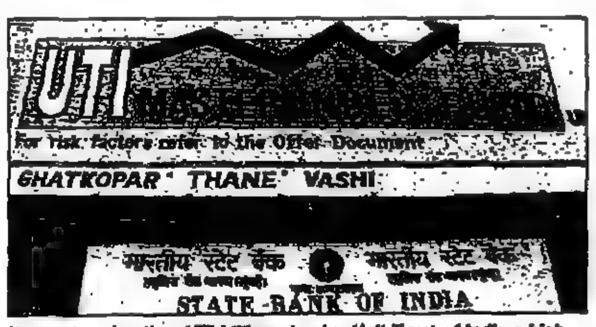
However, it would be political dynamite. Mr Subramanyam says UTI will only negotiate strategic sales in tandem with other state-owned financial institutions. UTI could emerge from crisis strengthened, and a powerful agent of change. But it is not out of trouble yet. Until US-64 is converted into a market-priced fund, UTI is exposed to a future fall in the market, which could unravel the restructuring plan.

"The government cannot afford to bail UTI out every three or four years," says a senior banker who adds that US 64 "is anyway too big for India's shallow markets". This will only change once other domestic institutions – such as insurance companies and mutual funds – mature. UTI may also face shortfalls when some of its smaller assured return schemes mature. Its ability to navigate these difficulties is hampered by the rigidity of the UTI Act: no share capital – only Rs 7bn reserves – mandated management structure and arcane accounting norms three decades old. And analysts wonder how many risk-averse savers will stay with US-64 when it becomes market-priced, and their capital is at risk.

Any large scale exit of small savers could swamp the gains from inflows of high net worth individuals into private sector funds. "They will remain," says Mr Subramanyam. "These are changed times. Handwritten bank passbooks are being replaced by computerised statements, physical securities by dematerialised stock. These changes will also be absorbed by the investor."

**Krishna Guha**

Busy UTI shareholder filling in forms in Mumbai AP




It pays to advertise: UTI billboards give Unit Trust of India a high profile in central Mumbai (Bombay)

**PRIVATE SECTOR MUTUAL FUNDS** by Michael Peel

# A fresh mood of confidence

Investors have begun to return as the sector shows stronger performance and sound management

The fund manager looked with distaste at a leaflet listing the incentives that a rival company offered its sales force. "This is the kind of thing we *do not* want to see," he said, pointing to pictures of a gold plated clock, "cool" water jug and 24-carat gold biscuit.

The use of such gifts as a motivational tool reflects the increasing intensity of competition among Indian private sector mutual funds. Managers are enjoying strong growth in custom *after a year of excellent* returns and important tax breaks for investors.

The private sector's prospects have been further improved by the plan for Unit Trust of India, the state-owned company that controls 84 per cent of an industry worth between $17bn and $20bn, to stop offering assured returns from its flagship US-64 fund. This cultural shift might serve to put people more at ease with funds offering fortunes that fluctuate with the markets.

That feeling of reassurance is important, as many investors recall having their fingers burned after putting money into a wave of closed end funds launched in 1994 and 1995. Fund managers acknowledge that many people were left with a feeling that the private sector was suspect.

Investors have begun to return as the industry has shown it is capable of strong performance and sound management. Some funds have achieved returns of more than 30 per cent in the last year, benefiting from a decision to weight their portfolios towards rapidly growing sectors such as information technology and pharmaceuticals. Funds have tried to become more transparent and accessible – almost all new funds are open ended, and many publish their revised portfolios quarterly or even monthly.

"The main strategy we had was to tell the investors that we would not do anything spectacular," says S.K. Mitra, managing director of Birla Global Finance. "We wanted to be very safe."

The private sector has gained from law changes, too. The stock market regulator has relaxed limits on the size and composition of funds, and the last budget included a cut in the tax levied on investments in debt instruments.

**'The market atmosphere today is very different from the one we knew four or five years ago'**

Fund managers add that they have benefited in the last year from improved access to potential customers, largely because foreign banks have stepped in to act as product distributors.

"All these guys have excellent clients," says Ajay Srinivasan, managing director of Prudential ICICI Asset Management. "They are high-end clients who understand financial markets."

Another driver of development has been the state of the economy and the equity market. A fall in interest rates has made equity mutual funds more attractive to investors than fixed income instruments such as bank deposits and bonds.

Fund managers say they are seeing increasing interest from private investors who have suffered losses as a result of volatility in the equity market and the collapse in property prices. Mutual funds are also an appealing option for people who want to invest in equity but cannot afford large holdings because individual share prices are simply too high.

The task for fund managers is to retain through the bad times the people who have come to them in these favourable circumstances. "Whether this is a sustained investment depends on the performance of the market," says Ajai Kaul, president of Alliance Capital Asset Management (India).

"I think investors are smart enough to tell that 40 per cent year on year [growth] is not going to happen."

If the industry is to progress, says Mr Kaul, it must send representatives out into the country to preach the virtues of mutual funds. He estimates that only about 20 per cent of a potential investing population of between 20m and 30m have a good understanding of how the industry works.

This is but one of a number of barriers the private sector must overcome if it is to make an impression on more than a handful of investors. Another challenge is the high profile of UTI – every other shopfront, bus and billboard in central Bombay seems to promote the "high safety, easy liquidity and attractive returns" offered by US-64.

Private sector funds, by contrast, are restricted by rules governing the proportion of clients' investments they can extract as fixed costs to spend on items such as advertising.

"I think advertising is very limited," says Mr Srinivasan. "I look at people who have built brands in mutual funds – they are very few. Most private sector funds have not."

The aspirant funds must also overcome the attachment that many investors feel to UTI. Despite recent problems at US-64, the trust is still looked upon by many as a safe and dependable home for cash.

Fund managers agree they will have to be cautious in their attempts to win market share. "You have to be careful about being over-aggressive," says one. "We have been to conferences where we have said: 'UTI are not providing the assured returns' and elderly people have come up to us and said: 'You shouldn't have said that about UTI – it's not nice.'"

The funds say they will compete instead by offering more sophisticated products such as specialist IT investments or index tracking funds. In the longer term, they hope to offer alternatives to the employee pension and provident funds run by many companies.

It may be too early to talk of a private sector resurgence, but the new generation of funds has undoubtedly gone some way towards expunging memories of the dark days of the mid-1990s. As Mr Kaul puts it: "The atmosphere today is very different from the one we knew four or five years ago."

**DEBT MARKETS** by Michael Peel and Krishna Guha

# Investors press for further reform

Development of money markets has been repressed because there is no culture of term lending among powerful state banks

Reform of India's moribund debt and money markets moved to centre stage last week, with the announcement of important changes set out in the Reserve Bank's credit policy. Bimal Jalan, governor of the Reserve Bank, says the moves will deepen the markets and moderate outbreaks of volatility.

"We have announced a large number of measures after talking to bankers and market participants to try to make these markets more liquid – to let people come in and out," he says.

The Reserve Bank set the tone by announcing wide-reaching changes to the way it provides liquidity to banks. The existing refinance system – with its fixed quota of credit – will give way to a more flexible system of liquidity provision through the repo market. Officials hope this will prevent sharp spikes in the call money market, and enhance their ability to manage a corridor of interest rates.

Non-bank financial institutions, including mutual funds and insurance companies, will be permitted to participate in the repo market for the first time. At present, they manage their liquidity through the call money market. Mr Jalan says the ultimate goal is to shift non-banks over to the repo market and create a pure inter-bank call money market.

**Last week's measures will ease the problem**

The Reserve Bank paved the way for interest rate derivatives by issuing guidelines on swaps and forward contracts.

Last week's credit policy also carried forward the development of the debt market, giving primary dealers greater responsibility for issues of government securities. In future, the Reserve Bank will consider offering new issues on the basis of price, rather than yield. Mr Jalan plans to consolidate issues, to facilitate the emergence of liquid benchmarks in government debt. This would also enable the development of separate trading of interest and principal.

Market participants welcome the reforms. "It is all very productive stuff," says Dominic Price, country head of J.P.Morgan. "Mr Jalan is bringing the market more into line with developments elsewhere." He says the driving force is the need to absorb the government's huge borrowing programme. Bankers say the development of money markets and long term benchmarks is essential to improve the flow of money around the financial system, and provide ways of managing asset-liability mismatches.

"It will bring about some very fundamental changes to the benefits of banks, corporates and supervisors as well," says Martin Fish, chief executive for India for Standard Chartered.

Over the past year, however, little has changed. India's bond market – with $85bn outstanding, two thirds of it sovereign debt – is one of the biggest in Asia, but it remains one of the least active. Foreign investors mostly stayed away last year, preferring to buy the higher-yielding corporate paper available in distressed emerging markets.

The government's borrowing programme hit record levels as the economic downturn took its toll on tax revenues. This left little room for cost-effective corporate fundraising. "The government has effectively cut out the private sector from accessing the bond markets at cheap rates," says Sanjay Mansabdar, vice president of J.P. Morgan Securities.

The deficiencies of the money markets were also plain to see. Bankers complain that the prices of term money is set with reference to the overnight cash market, the only market of any liquidity. This makes a dip into the term money market a risky proposition.

If the overnight rate suffers one of its occasional bouts of volatility, variations in the price of longer term money can be enormous.

Last week's reforms go some way to addressing this problem. But Ashish Pathasarthy, head of money markets at HDFC Bank, says the term money market will only develop if the big state-owned banks become more

Turn to next page

**EQUITY MARKET** by Krishna Guha

# Making steady headway

### Reducing insider trading is an uphill battle, but new technology is helping to bring greater transparency to the market

Investors lured back into India's equity market by tax breaks in the budget will find it a vastly different place to the inefficient and scandal-ridden market of the early 1990s.

The last three years have seen dramatic progress in market infrastructure – including online trading and settlement – falling transaction costs and tighter regulation.

"Today, we certainly have a much better market. We have made gains on all fronts," says D.R.Mehta, chairman of the Securities and Exchange Board of India (Sebi). Mr Mehta says these improvements will help consolidate the recent enthusiasm for stock market investment. But he warns: "We still have miles to travel, miles and miles."

India's market culture remains highly speculative, clubby and conspiratorial. Standards of corporate disclosure are poor. Liquidity typically takes precedence over fundamentals in moving stock prices. The market is rife with rumour and allegations of bull and bear cartels constantly resurface.

Less than a year ago, investors were given a sharp reminder of what has not changed. Shares in three companies, BPL, Videocon and Sterlite, soared out of the blue on extraordinary volumes, before plummeting to earth – prompting a payments crisis. "It was a market manipulation, certainly it was," says one official.

Last month, Sebi sacked the head of the Bombay Stock Exchange (BSE) for allegedly failing to insist on adequate margins and allowing some brokers to undo trades after hours. Anand Rathi, the new president of the BSE, promises to strengthen the "Chinese walls" separating the elected governing board and the exchange administration.

"There's a perception that the BSE is a brokers' club – that view is incorrect. We'll erase that perception."

Mr Mehta says that even at the height of market turmoil, the market's safety nets held. Both the BSE and the National Stock Exchange (NSE) stepped in to make good defaulting brokers' trades. "The problem was restricted," he says. "The market was not closed ... it was never unsafe."

To calm nerves that were already stretched by anxieties in other emerging markets, Sebi toughened up India's margining system. A circuit-breaker prevents any stock from rising or falling by more than 8 per cent in a single day. If a stock moves by 16 per cent in a trading cycle, it attracts volatility margins of up to 40 per cent. This is on top of daily mark-to-market margins, total exposure margins and concentration margins, (paid by investors buying only a few stocks).

Mr Mehta says tough margins and a steady rupee together ensured that India was the second least volatile market in Asia last year after Taiwan.

However, investors complain that margins are too burdensome, tie-up capital and make pricing less efficient. "The system has become too complex," says an investor. Sebi is considering plans to rationalise and simplify margins. In all other respects, the cost of participating in the market has fallen sharply as its infrastructure has progressed in leaps and bounds. Online trading, pioneered by the NSE in late 1995, is now universal.

Both the NSE and the BSE have installed remote terminals across India – about 3,000 to date – extending the benefits to investors outside Bombay, and drawing more liquidity into the market.

In the last 12 months, paperless share settlement has taken hold, following Sebi's decision to make it mandatory in stages.

"At present, we have about 40 to 50 per cent of settlement," says C.B. Bhave, managing director of the [electronic] National Securities Depositary. "By the end of the calendar year it will be upwards of 80 per cent."

Mr Bhave says electronic settlement has reduced settlement costs from around 40 to 50 basis points, to between five and 10. Custody costs have fallen from 30 to 40 basis points a year to between three and six points.

Brokers have also cut fees, and paperless transactions are exempt from stamp duty. The risk of buying fake shares is eliminated. Investors are registered as the owners of shares within 24 hours of acquiring them – against 60 to 65 days in the case of paper shares.

Fergus Fleming, managing director of HSBC Securities in Bombay, says all this is encouraging foreign investors to trade the market more actively, rather than buy and hold favoured stocks.

"Now they are looking at a shorter time frame, topping up and reducing their holdings depending on circumstances. There is more turnover, even if there is no net inflow," he says. Stock exchange officials now hope to use their new infrastructure to set up a derivatives market, online initial public offerings, gilt sales and buying and selling of mutual funds.

"We could offer our first equity futures contract as early as June," says R.H.Patil, managing director of the National Stock Exchange. This relies on parliament approving amendments to contract law.

Better technology, and the transparency it brings, is also helping to clean up the market. Exchange officials and regulators now have access to real time information on individual brokers trades and positions.

However, technology alone cannot prevent insider trading, and reducing this is proving an uphill battle. Last year, Sebi introduced quarterly financial reporting to increase the flow of corporate information made available to all investors. But leaks, tips and outright corruption remain endemic, part of a broader malaise in Indian public life.

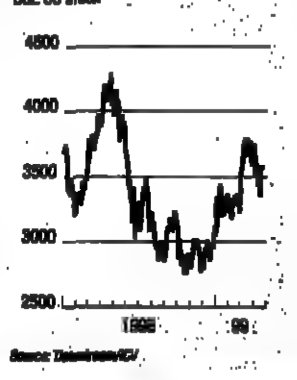
Well-founded fears of insider dealing led the company law board to introduce share buy-back provisions last year so restrictive as to be almost unuseable. In a controversial move, Sebi is pursuing Unilever subsidiary Hindustan Lever over insider dealing allegations relating to its merger with group company, Ponds India.

However, Sebi is under-resourced, in need of a permanent cadre of professional staff, and full authority to monitor Unit Trust of India.

Real change will only come at the level of the individual company, when India's giant public sector shareholders join foreign investors in demanding high standards of disclosure and transparency. There are very tentative signs that this is beginning to happen.

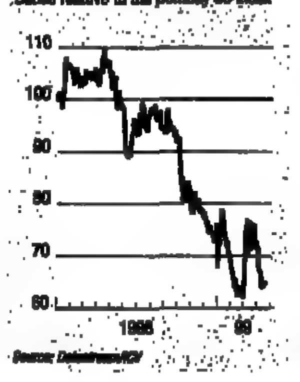
A broker handles calls on the Bombay stock exchange. The last three years has seen rapid progress in market infrastructure AP

**Bombay stock exchange**
BSE 30 index




Source: Datastream/ICV

**Indian banking sector**
Banks relative to the Bombay 30 index




Source: Datastream/ICV

# Optimism over the future of the bond market

From previous page:

active outside the overnight market. "It is a question of approach and attitude," he says.

This could change, as tougher rules on asset-liability management come into force. The Reserve Bank has also lifted reserve requirements on inter-bank loans – making it easier for small banks to borrow term money from their bigger counterparts. Traders are eager for an end to rules that stop dealers taking short positions, allowing market participants to hedge their exposure. This should come with the green light for interest rate swaps.

"The derivatives market is very important," says Mr Parthasarthy. "We are hoping it will develop the cash market."

There are some reasons for optimism about the development of the bond market, too. Paperless trading will reduce settlement time. Trading in the secondary market for corporate bonds has already been made more attractive by the abolition of stamp duty on electronic transactions.

Analysts hope the stamp duty exemption will encourage banks to trade bonds, Rather than hold to maturity, as they commonly do today. The cut is "the most positive step we have seen in three years," says Tarun Saigal, head of money markets at ANZ Investment Bank.

Investors are keeping up the pressure for further reform. Banks and financial institutions have formed a lobby group known as Fimmda, which one banker describes as "a sounding-board and mouthpiece from the marketplace".

They seem to have chosen their moment well. Economic slowdown, allied to a dearth of new equity issues, has forced the government to focus on measures to improve the workings of the capital markets. "Their attitude is very positive," says Mr Saigal. "At least they are prepared to listen."

**INSURANCE MARKET** by Michael Peel

# Full deregulation will take some time

### Would-be entrants believe they could tap insurance markets that have been poorly supplied by state-owned behemoths

Foreign insurers are fond of telling Indians that their country is one of only four in the world that prohibit private companies from offering any form of insurance. Surely, they argue, India cannot be proud of sharing this distinction with Burma, Cuba and North Korea.

But it may remain so for some time yet. The bill to open up the insurance market to the private sector – an inch away from becoming law last month – looks likely to be one of the first casualties of the latest bout of political turmoil.

The prospective entrants have seen deregulation postponed often enough not to be surprised by the latest turn of events. They know all too well how quickly situations change: several foreign insurers operated in India before their plans were scuppered by nationalisation of the industry in 1972.

They are aware, too, that full deregulation is likely to take some time. Under the proposed legislation, foreign companies would initially be allowed to hold only 26 per cent stakes of any Indian venture, with the balance held by a local partner.

Still another reason for caution is the position of the two giant state insurers, Life Insurance Corporation and General Insurance Corporation, which monopolise annual markets estimated at $6bn and $2bn respectively. GIC's four operating subsidiaries alone have thousands of branches and many tens of thousands of employees.

Insurers hoping to enter the market – expected to number about a dozen – are reluctant to commit themselves to winning much business off the state-owned behemoths. They argue instead that they will benefit from healthy premium growth as more and more people see the merits of buying insurance.

"Eating into the existing companies' market share will be much more difficult than eating into the expanded pie," says Antony Jacob, chief executive in India of Royal & Sun Alliance. "I believe that the growth for the first five to seven years [in general insurance] will be in the region of 20 to 25 per cent a year."

In common with other private sector hopefuls, Mr Jacob argues that the entrants would be able to offer better products and services than the state companies. Foreign insurers will be able to settle claims more quickly and provide more sophisticated methods of risk assessment.

The would-be entrants believe they could tap markets that have been poorly supplied by GIC and LIC. Health insurance and property cover are cited as particularly under-developed.

However, consumers are unlikely to see premiums reduced in the short term. This is partly because many types of policy, including property and motor insurance, must be sold at rates laid down in tariffs.

The reluctance to undercut seems also to reflect a concern that intense price competition could drive some of the joint ventures out of business. "I think that kind of rate war is not healthy," says S.K.Mitra, managing director of Birla Global Finance, which has set up an operation with Sun Life of Canada. "It has to be a more sustainable long-term strategy."

There are other dangers awaiting overseas arrivals. Few seem to have a clear idea of the type of people they will target, beyond a general plan to win the custom of employees of their Indian partners. There are worries, too, that the ventures would prove too demanding for indigenous insurers. Their proposed 74 per cent share of equity capital might prove onerous, especially as most ventures are expected to offer no returns for five or six years.

One foreign insurer argues that the skewed balance of power could deter both Indian and overseas companies from entering the market. "You will find at the licensing stage that there might not be as many foreign insurers as there might have been long ago," he says. "The 26 per cent is too low. All of us were hoping for more."

He is critical of other aspects of the regulations, particularly the powers invested in an advisory committee that includes representatives of trades unions and consumers. He is concerned, too, that the government might force private sector companies to provide loss-making social insurance similar to that already supplied by GIC.

Other insurers point to testing cultural challenges, with one executive warning that people lacking experience of insurance might be reluctant to invest their money in a scheme they see as offering no return.

"I think there is a certain attitude that people pay the insurance scheme but want to recover the premium after 12 months," he says. "If you pay 1,000 rupees for your insurance scheme, you want to get 1,000 rupees back for a claim. It might not be 100 per cent valid."

All these concerns have been over-ridden by an eagerness to exploit a potential market generally estimated at tens of millions. Bill Barr, managing director of Guardian Insurance Services, says Indians save more than a quarter of their earnings on average, leaving plenty of disposable income to spend on premiums.

Some would-be entrants are already talking about returning to the positions they achieved before nationalisation, when foreign operations controlled more than a quarter of the industry. Mr Jacob says Royal & Sun Alliance is looking to regain its 8 per cent share of the total market, although he is reluctant to say "when and how".

It is only in private that overseas companies acknowledge the risk they would run by entering one of the world's last closed markets. "I am not saying it's a gamble going in here," says one. "But it's not too far removed from that."


Employees of state-run insurance companies have opposed measures to open the market to private and foreign companies AP

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THEATRE IN RUSSIA

# Winter's Tale triumphs over discontent

**John O'Mahony** talks to Declan Donnellan about his award-winning Russian production

On the week Declan Donnellan arrived in Moscow for the Golden Mask Awards, where his Maly Theatre production of *The Winter's Tale* received three nominations, the British Embassy issued recommendations to its nationals in Russia to keep a low profile, avoid situations of possible conflict and to speak English on the streets as little as possible.

**'Any tension that we are feeling here has very little to do with prizes or winning'**

Fury at the Nato bombardment of Serbia had already boiled over into violent street protests, hearty flag-burning sessions, and, most notoriously, a botched grenade attack on the American Embassy. While Russia's equivalent of the Olivier Awards was honouring a western director for the first time in its history, anti-western sentiment in the country was running at a vertiginous 15-year high.

"Any tension that we are feeling here has very little to do with prizes or winning," said Donnellan, as he loitered in the foyer of the Taganka theatre, "Yesterday evening, actors from a Yugoslav company flew in directly from Belgrade. Halfway through our conversation I was overcome by the surreal, frightening nature of the situation. Here we were, sitting down chatting with people whose country we just happened to be bombing."

The trip marked the culmination of a 14-year association with Russia that began in Helsinki in 1985 when Donnellan shared an interpreter with Maly director Lev Dodin and subsequently became one of the first foreigners to witness the St Petersburg company's powerful, rigorously conventional brand of ensemble theatre.

The relationship blossomed into two rapturously received Russian visits by Donnellan's groundbreaking company Cheek By Jowl, first with *Measure for Measure* and then with a spectacular all-male version of *As You Like It*.

Though he had always been eager to direct Russian actors, it was only when Donnellan retired Cheek By Jowl for a trial period in 1997 that he found the time to take up an invitation from the Maly.

"What attracted me is the willingness of Russian actors to take anything on board, to really attack important themes," says Donnellan. "In England, the worst thing you can do is be pretentious. As soon as any kind of direct emotional statement is made, you get this instinctive recoil, this protective wall of mockery. You practically have to administer a general anaesthetic if you want to use an abstract noun. Russians are far healthier. They are far less alone."

Equally important for Donnellan is the Russian theatre-going public, which, despite the Hollywood film and video onslaught of the past 10 years, remains relatively broad and unusually committed: "I've never been to a theatre performance here that wasn't jammed full of all kinds of people: courting couples, professional types, young men in military uniform. Theatre doesn't have the same snobbish, elitist overtones that you find elsewhere. It just really matters to Russians that their theatre is good. If every single theatre in London was closed it wouldn't cause a revolution. But here, you'd have people on the streets. This level of devotion changes everything."

The result of this English/Russian joint venture is a production of *The Winter's Tale* that perfectly balances the economic clarity of Donnellan's vision, the searing simplicity of Cheek By Jowl co-founder Nick Ormorod's design and the finely tuned, superbly orchestrated intensity of the Russian cast. The many considerable problems posed by *The Winter's Tale*, which was dismissed in Russia during the Soviet era as "a fairy tale," are effortlessly overcome. The speed of King Leontes' hurtling descent into murderous jealousy, a kind of time-lapse replay of Othello, is checked by an expressionistic dissection of the King's psyche into internal and external elements, along with a virtuoso central performance by Pyotr Cemak. The final reconciliation, and the crude "living statue" device to reintroduce Queen Hermione, is transformed into a deeply moving funereal union of dead souls.

And everywhere there is inspired local colouring: the sleek military uniforms reminiscent of the court of Nicholas II, the hilarious Belorussian "yokel" accents of the peasantry, and the trial of Queen Hermione, laced with visual allusions to Stalinist show trials of the 1930s: "We are not saying that this is a didactic comment on Russia," says Donnellan. "These are just the references that we use to tell the story. Russia is just very rich in strong, resonant references."

**'Theatre in Russia doesn't have the same snobbish, elitist overtones that you find elsewhere'**

Right until the moment Donnellan walked out on to the vast stage of the Bolshoi Theatre, however, no-one really expected the undoubted merits of the production to win against the tidal wave of anti-western feeling. The announcement that *The Winter's Tale* had won the Best Production award was greeted throughout the hall with shrieks of delight and disbelief.

"It was only as I was boarding an empty Aeroflot flight out of Moscow that it hit me," said Donnellan, "That despite everything that was going on in Serbia and with the situation in Russia, the theatre community could rise above it all. As a veteran of many award ceremonies, I thought that I had grown immune to this kind of thing. But I was really deeply moved by this gesture. It is a lesson for us all."

'The Winter's Tale' opens at Warwick Arts Centre tomorrow and then tours the UK until June 1.

Scene from 'The Winter's Tale': while Russia's equivalent of the Olivier Awards was honouring a western director for the first time, anti-western sentiment was running at a vertiginous 15-year high

THEATRE IN LONDON

# Comedy with a licence to chill

In 1958 the premier of *The Birthday Party* introduced the theatre world to Pinter's comedy of menace. Forty-one years on, Joe Harmston's revival is sharp on the comedy, not so hot on the menace.

The uncertainties in Pinter's text are still unsettling. We never discover the true identities of the strange men who turn up to winkle the reclusive Stanley out of his hiding place in a seaside boarding house, or the nature of their quarrel with him. We never learn where they are taking him, though we gather it is to some higher authority who will deal vindictively and brutally with him.

This Kafkaesque scenario has not dated: it is the stuff of nightmares; it also continues to resonate in a world where, in many places, the monstrous can invade normality at any time. Pinter's ability to switch from prattling mundanity to sweaty-palmed terror, indeed to have the two running concurrently, as they do during Stanley's impromptu birthday party, remains chilling.

Some aspects of this production are very good. Prunella Scales, who plays the dim and doting landlady, Meg, rather like an early version of Mrs Merton, delivers her lines with perfect comic timing, though I didn't quite believe in her pathetic lusting for Stanley. Steven Pacey makes Stanley a seedy and smug individual, who toys with Meg's devotion and makes capital out of her gullibility, thus rendering his transformation into a quivering jelly all the more striking. The production emphasises, too, how perceptive – and cruel – the comedy can be.

Timothy West as Goldberg and Nigel Terry as McCann also bring out the comic aspect of their pairing, emphasising the contrast between the brooding and taciturn McCann and the avuncular Goldberg, with his false bonhomie and gooey reminiscences about his Jewish childhood. The twitchiness of the two hit-men is also well expressed: Pinter's analysis of persecution focuses not just on the fear of the victim, but also of the persecutors manipulated by a higher command.

What doesn't emerge strongly in this production, however, is the mounting sense of icy fear. Pacey's Stanley drops to his chair like a stone when he hears Goldberg's name, but other moments just don't take on the deadly significance they could have. At one point McCann sits at the table simply tearing strips of paper with great deliberation – this could be made to feel horribly sinister, but it falls flat here; meanwhile, their cross-examination of Stanley is taken at such speed that it puts you in mind of a comedy show pastiche interrogation. Neither West nor McCann are quite suggestive enough to make their humiliation of Stanley, during the birthday party, truly intimidating.

The last scene is still effective. When Stanley appears, bundled into an outsize suit, he is evidently so traumatised he cannot speak, and McCann and Goldberg shepherd him off to the helpless horror of Meg's husband Petey (a nicely understated Barry Jackson). But as Petey resumes his benign chit-chat with Meg we should have the sense that their humdrum lives have just collided with something quite terrible, to which any of us could fall prey. Here that spine-chilling moment never arrives.

**Sarah Hemming**

'The Birthday Party', Piccadilly Theatre, London W1.

Perfect comic timing: Prunella Scales with Steven Pacey Alastair Muir

# Moscow, a city of many orchestras

Despite the financial uncertainty, **George Loomis** finds much music-making over the Russian Easter

Important church holidays such as Russian Easter bring a surge of music-making in Moscow, a situation that the country's economic crisis has done nothing to change. Arts organisations must now be quick-witted if they are to have any semblance of financial order, yet none seems to think that cutting back operations would solve anything. And so Moscow remains a city of many orchestras, the most important of which could be sampled in the past fortnight.

*It was a period* which brought the unexpected news that Vladimir Spivakov will succeed Mikhail Pletnev as music director of the Russian National Orchestra. Nearly 10 years ago a leap of faith plus an infusion of Getty money helped create a brand new orchestra for Pletnev, then renowned as a pianist but untested as a conductor. Now the RNO is Russia's best-known orchestra, with a Deutsche Grammophon contract any orchestra can envy.

But its appointment of another star instrumentalist may be tempting fate. As conductor of the Moscow Virtuosi, a small touring ensemble, violinist Spivakov has presided over some congenial recordings but has had little opportunity to tackle the core repertoire. Pletnev, who will be the orchestra's conductor laureate, says he wants to spend more time composing. This is not a talent many may know about, though his Viola Concerto was premiered by Yuri Bashmet in December.

The RNO is distinctly western in its management. But when it comes to choosing a new conductor, apparently only a Russian would do. And its two Easter programmes in the Great Hall of the Moscow Conservatory were Russian to the bone. Rakhmaninov's First Symphony has some brutal, almost diabolical eruptions of the sort that never disturb the piano concertos, but it afforded Pletnev ample opportunity to indulge his flair for the grand gesture. Rimsky-Korsakov's concise piano concerto makes a more reasoned statement, with most of its drama lying in the virtuoso piano part, dispatched here with fearsome octaves by 14-year old Zlata Chochieva.

**Rakhmaninov's First Symphony has some diabolical eruptions of the sort that never disturb the piano conertos, but it afforded Pletnev ample opportunity to indulge his flair for the grand gesture**

But what really caught the attention were two cantatas by Sergei Taneyev, who steered clear of the nationalist inclinations of his late 19th century contemporaries. *John of Damascus*, his opus 1, has choral writing that recalls Brahms, but the composer's final work, *At the Reading of a Psalm*, is broadly eclectic, with ripe Wagnerian harmonies, Strauss-like orchestral colours and surging Mahlerian climaxes. This is not music in which understatement plays much of a part, and proved a bracing experience.

Most of the older Moscow orchestras are still around in some form or other. The former Moscow Radio Symphony Orchestra no longer has any radio affiliation, but that doesn't stop it calling itself the Tchaikovsky Symphony Orchestra of Moscow Radio when it goes on tour. On home ground, most people simply refer to it by the name of its conductor, Vladimir Fedoseyev. While the RNO prides itself on being privately funded, orchestras like Fedoseyev's which *do* receive state support have seen its value reduced to a pittance by inflation. So everyone is on the look-out for funds, and Fedoseyev has managed to attract the giant LUKoil. As for the orchestra's quality, its lush strings resounded handsomely in *La Damnation de Faust*, but French conductor Philippe Bender couldn't quite get the players on to Berlioz's wavelength, and the vocal soloists were weak.

Yet one must be wary of national stereotypes. Contrary to what some may think, Mahler and Bruckner are often played in Russia, and the Russian (formerly USSR) State Symphony Orchestra excelled in a sumptuous Bruckner Seventh under guest conductor Samuel Friedman. The first movement unfolded with due majesty, but Friedman took the elegiac second movement too quickly for it to work its spell. This orchestra has been Evgeny Svetlanov's since 1965, and though his performances are infrequent, earlier in the month he offered a memorable account of Honegger's mystical Third Symphony.

Had the RNO been interested in a non-Russian conductor, one was close at hand. Constantine Orbelian, an American of Armenian descent, has led the venerable Moscow Chamber Orchestra since before the fall of Communism. He brought American trumpeter Bibi Black to the Tchaikovsky Hall for Alexander Harutunyan's Trumpet Concerto, a pleasant enough work that sounds something like Shostakovich without the irony. Glinka's charmingly Italianate Grand Sextet was good to hear, but it deserved a more sympathetic pianist than Mikhail Arkadev. Orbelian often programmes Tchaikovsky's Serenade for Strings, but if any group is going to overplay this overplayed work, this is one to do so.

# INTERNATIONAL Arts Guide

## AMSTERDAM

**DANCE**
**Het Muziektheater**
*Tel: 31-20-551 8911*
*La La La Human Steps*: the Canadian dance company in "Salt"; Apr 29

**OPERA**
**Netherlands Opera, Het Muziektheater**
*Tel: 31-20-551 8911*
Otello: by Verdi. Conducted by Carlo Rizzi in a staging by Klaus Michael Grüber, with a cast led by Vladimir Bogachov; Apr 28; May 1

## BALTIMORE

**OPERA**
**Baltimore Opera Company**
*Tel: 1-410-625 1600*
Andrea Chenier: by Giordano. Conducted by Marco Armiliato in a staging by Bernard Uzan; Apr 28, 30; May 2

## BEIJING

**DANCE**
**Exhibition Centre Theatre**
● The Royal Ballet: the British company presents a Gala Programme, with the Orchestra of the National Ballet of China conducted by Andrea Quinn; Apr 25, 29
● The Royal Ballet: Romeo and Juliet, in Kenneth MacMillan's staging with designs by Nicholas Georgiadis. With the Orchestra of the National Ballet of China conducted by Andrea Quinn; Apr 30; May 1, 2

## BERLIN

**DANCE**
**Deutsche Oper**
*Tel: 49-30-34384-01*
A Midsummer Night's Dream: new staging by Heinz Spoerli, conducted by Arturo Tamayo. With sets by Hans Schavernoch and costumes by Keso Dekker; May 1

## BONN

**EXHIBITION**
**Kunst- und Ausstellungshalle der Bundesrepublik Deutschland**
*Tel: 49-228-917 1200*
*www.kah-bonn.de*
Composition on the table: interactive musical installation by Toshio Ivai; to Jun 12

## EDINBURGH

**EXHIBITION**
**Royal Scottish Academy**
*Tel: 44-131-624 6200*
173rd Annual Exhibition: painting, sculpture and architecture, including works by three Academicians who died in 1998 – Alberto Morrocco, David McClure and James McIntosh Patrick; to Jul 11

## FLORENCE

**OPERA**
**Teatro Comunale**
*Tel: 39-055-211158*
*www.maggiofiorentino.com*
The Queen of Spades: by Tchaikovsky. Conducted by Semyon Bychkov in a staging by Lev Dodin, in a co-production with Netherlands Opera and Opéra National de Paris; Apr 29

## FORT WORTH

**EXHIBITION**
**Kimbell Art Museum**
*Tel: 1-817-3328451*
*www.kimbellart.org*
Matisse and Picasso: A Gentle Rivalry. More than 100 paintings, sculptures and drawings on loan from collections around the world make up this first-ever exhibition devoted to the relationship between the two great modernists; to May 2

## HOUSTON

**EXHIBITIONS**
**Museum of Fine Arts, Houston** (*Tel: 1-713-639 7300*) and **Contemporary Arts Museum** (*Tel: 1-713-284 8251*)
Art at Work: and Forty Years of the Chase Manhattan Collection. Display of 77 works which together chart the major movements in postwar American and European art. Organised chronologically, the show at the Museum of Fine Arts includes works by Calder, Stella and Beuys, while the Contemporary Arts Museum features artists of the 1980s and 1990s, including Basquiat, Cragg, Lichtenstein and Sherman; to May 2

## LAUSANNE

**OPERA**
**Opéra de Lausanne, Théâtre Municipal**
*Tel: 41-21-310 1600*
The Rake's Progress: by Stravinsky. New production. André Engel directs a staging by Dominique Meyer, conducted by Jonathan Darlington; May 2

## LONDON

**CONCERTS**
**Barbican Hall**
*Tel: 44-171-638 8891*
● English Chamber Orchestra: conducted by Paul Goodwin in works by Ravel and Mozart, and in the world premiere of a new work by Kakinuma, with shakuhachi soloist Richard Stagg; Apr 28
● London Symphony Orchestra: conducted by Mstislav Rostropovich in works by Tchaikovsky, Prokofiev and Shchedrin, with violin soloist Maxim Vengerov; Apr 29

**Royal Festival Hall**
*Tel: 44-171-960 4242*
BBC Symphony Orchestra: conducted by Martyn Brabbins in works by Adès, Maxwell Davies and Birtwistle; Apr 29

**EXHIBITION**
**Queen's Gallery**
*Tel: 44-171-839 1377*
The King's Head: organised to coincide with the 350th anniversary of the regicide, this biographical exhibition brings together images of Charles I from all stages of his life. Including Van Dyck's triple portrait, prints, medals and books, the show concludes by focusing on the iconography of the king as martyr; to May 3

**OPERA**
**English National Opera, London Coliseum**
*Tel: 44-171-632 8300*
● Mefistofele: by Boito. Conducted by Oliver von Dohnányi in a new staging by Ian Judge; Apr 29
● Semele: by Handel. Rosemary Joshua sings the title role in Robert Carsen's production, conducted by Harry Bicket; Apr 28, 30

**Sadler's Wells**
*Tel: 44-171-863 8000*
The Royal Opera: Paul Bunyan, by Benjamin Britten. Staging by Francesca Zambello, conducted by Richard Hickox (replaced by Chris Willis on Apr 27); Apr 28, 29, 30; May 1

## MADRID

**EXHIBITION**
**Fundación Juan March**
*Tel: 34-91-435 4240*
*Kurt Schwitters and the Spirit of Utopia*: paintings, drawings, collages and photographs by the German avant-garde artist, from the period 1918-1947. Includes loans from the Sprengel Museum in Hanover and private collections, including that made by the artist's son; to Jun 27

## MUNICH

**CONCERTS**
**Philharmonie Gasteig**
*Tel: 49-89-5481 8181*
● Munich Philharmonic Orchestra: conducted by Gerd Albrecht in works by Sibelius and Allan Pettersson; Apr 30
● Prague Symphony: conducted by Leos Svarovsky in works by Rimsky-Korsakov, Chopin and Ravel, with piano soloist Rudolf Buchbinder; Apr 28

## NAPLES

**OPERA**
**Teatro di San Carlo**
*Tel: 39-081-797 2331*
*Il Barbiere di Siviglia*: by Rossini. Gabriele Ferro conducts a staging by Filippo Crivelli, with a cast led by Leo Nucci; Apr 28, 30; May 2

## PARIS

**OPERA**
**Opéra National de Paris, Opéra Bastille**
*Tel: 33-1-4473 1300*
*www.opera-de-paris.fr*
Wozzeck: by Berg. Conducted by Jeffrey Tate in a new staging by Pierre Strosser; May 3

**Opéra National de Paris, Palais Garnier**
*Tel: 33-1-4343 9696*
*www.opera-de-paris.fr*
*Platée*: by Jean-Philippe Rameau. Conducted by Marc Minkowski in a staging by Laurent Pelly; Apr 28, 29, 30; May 2, 3

## VIENNA

**CONCERT**
**Konzerthaus**
*Tel: 43-1-5870 5040*
Vienna Radio Symphony Orchestra: conducted by Ulf Schirmer in a concert performance of J. Strauss's *Der Lustige Krieg*; Apr 29

## TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

**EUROPEAN CABLE AND SATELLITE BUSINESS TV**

● **CNN International**
Monday to Friday, GMT:

**06.30:** *Moneyline with Lou Dobbs*
**13.30:** *Business Asia*
**19.30:** *World Business Today*
**22.00:** *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

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PERSONAL VIEW GEOFFREY ARONSON

# Mr Muscle

The Clinton administration's strategy in the world's trouble spots reveals a consistent failure to understand the nature of its own power


Clinton: It's lonely at the top

The Clinton administration's war against Yugoslavia has been much criticised in recent weeks. Yet the problems associated with US policy in the Balkans are deeper than the superficial debate on tactics and strategy suggests. Nor is the solution to be found in the arrival of Apache helicopters or in the introduction of American-led ground forces.

There are a number of symptoms of a profound malaise in US policy. These include the reluctance of the Clinton administration to describe its captured soldiers as prisoners of war, and its desire to wage a war in which no one – friend or foe – dies. Equally disturbing was its initial failure to consult Russia, charter member in the now-stillborn Partnership for Peace.

For all its acumen in the conduct of domestic and economic policy, the Clinton White House has shown itself as tragically inept in its response to the challenge of foreign affairs. In spite of the power and authority vested in the world's unchallenged superpower, in this vital endeavour, Bill Clinton has not known how to be a president.

This flaw in Mr Clinton's use of American power has been in disturbing evidence not only in the conduct of relations towards central issues such as Yugoslavia, Iraq, and Israel, but also in places as far afield as Haiti, Rwanda, and Somalia.

The common thread tying these diverse issues together has been the administration's consistent failure to understand the nature of the power its wields. Since it lacks this basic understanding, it is hardly surprising that its strategy and tactics have fallen short even of the standards set by the administration.

This consistent amateurism in the use of power is unprecedented in recent American history. Critics of the conduct of US policy in the Nixon, Reagan, Bush, and even Carter administrations have never questioned whether these presidents and their advisers were aware of the nature of American power in international affairs. Nor did they have to ask whether the US government was confident and comfortable in exercising its power.

Both in the conduct of war and in the making of peace, the White House has been outmatched by leaders far more skilled and ruthless in their pursuit of national interest. Slobodan Milosevic, president of Yugoslavia, is only the latest in a line of leaders of smaller, less powerful countries who have taken the measure of Mr Clinton. In his overwhelming desire for a quick diplomatic or military fix without regard to long-term interest or strategy, they have found an opportunity for mischief, mayhem, and even murder.

It is not only in conducting war in the skies over Baghdad or Belgrade that the Clinton administration has shown itself unequal to the challenges it faces. Wars generally follow a failure of diplomacy. Diplomacy falters when adversaries fail to comprehend, or to respect, the intentions of the person sitting on the other side of the table.

Mr Milosevic, like Saddam Hussein, president of Iraq, calculated that he could use the failure of American-led diplomacy to his own advantage. Mr Milosevic has already confounded Nato's primary objective – the peaceful existence of Kosovo's Albanian majority. In this important respect, whatever happens, Nato has already lost in Yugoslavia.

In Iraq, US diplomacy has failed. The administration used the United Nations as an instrument to try to force Iraq to submit to an inspection regime entailing a loss of sovereignty unprecedented in the post-colonial era. But questions about the credibility of US intentions have proved justified.

Mr Hussein has not only defeated the inspection regime – the keystone of the administration's policy of containing Iraq. He also has demonstrated that he can survive the US-devised alternative. This is the continuance of economic sanctions, a low-grade war from the air, and a policy of "regime replacement".

The precedent in Iraq can only encourage Yugoslavia's leader to persist against an adversary that has telegraphed a hesitant commitment to realise its vision of the future. The US has signalled that it lacks even the ability to conceive a strategy for the effective use of American and allied power.

Mr Milosevic may have gained encouragement from what appears an unlikely source – the American "victory" at the Wye Plantation talks between Israeli and Palestinian negotiators last October. Mr Clinton's involvement in these talks is probably the most illuminating example of his failure to appreciate the nature of the power he wields.

In the months preceding the talks, American officials conducted a diplomatic "cold war" against Benjamin Netanyahu, the Israeli prime minister, which included withdrawn ultimatums and unfulfilled threats. Officials including the president were drawn into refereeing the minutiae of relations between unwilling Palestinian and Israeli negotiators.

At Wye, Mr Clinton invested much time and the prestige of the presidency, to forge what at best was a partial understanding about how to implement an already signed interim agreement. In spite of his efforts, the Wye understandings – in particular Israel's further military redeployment from parts of the West Bank – remain unfulfilled.

One can be sure that the pattern of presidential involvement at Wye, culminating in an agreement that Mr Clinton proved unable or unwilling to enforce, did not go unnoticed in Baghdad or in Belgrade. Foreign policy is not simply a different kind of domestic policy, and foreign adversaries cannot be considered like domestic political opponents.

Mr Clinton can expect no help in Yugoslavia from his European partners, who are similarly unattuned to the demands of making and executing foreign policy in crises. As president of the US, he is, and remains, alone at the top.

*The author is the director of the Foundation for Middle East Peace in Washington DC*

# LETTERS TO THE EDITOR

## Europe and the new 'American way'

*From Mr R.A. Ledingham.*

Sir, Stuart E. Eizenstat's article "Why we should welcome biotechnology" (April 16) appears to be based on the premise that European resistance to genetically modified crops is purely the result of media bias.

There are some very genuine and valid concerns outside the US about the environmental and economic impact of engineered crop plantings. There is also some – admittedly hyped – concern about the effect of consuming genetically modified foods, not least the concern of the UK's "food safety minister" who has decided that all caterers will be required to declare which items on a menu contain such foods.

Europe is about to find out the contemporary "American way". That way used to be striving to provide the products consumers want, of the best quality, at the best price. Such a tradition does not seem well served by Mr Eizenstat's claim that "within a few years, most US agricultural production will consist of modified organisms or be mixed with such products".

The implications are that Europeans will not be able to identify genetically modified products among US agricultural production but must allow all those products to be sold or face the threat of sanctions causing collateral damage to unrelated industries.

There is perhaps a better way forward. The US Department of Agriculture could sponsor and specify a contract traded on the Chicago Board of Trade for non-GM soybeans, wheat, corn and rice. Given current European market sentiment, those contracts would probably trade at a premium to existing CBOT contracts and would give everyone, growers and buyers, a genuine long-term choice.

If the US wants to defuse a crisis, the USDA could sponsor and specify a Chicago Mercantile Exchange future, for boneless beef from cattle reared without growth-promoting hormones.

The main argument against providing the agricultural markets with such choices appears to be that it may be against the interests of some very powerful pharmaceutical and chemical industry lobbyists. If the US is not prepared to act, maybe the Paris Matif, the Warenterminboerse or Amsterdam's AEX might consider unilateral contract specifications and regimes. Meanwhile, with modified foods' identity masked by what appears to be a deliberate US government policy, could someone please tell our illustrious food safety minister here in the UK that he is whistling Dixie and is going to look extremely stupid.

R.A. Ledingham,
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UK

## Banana solution calls for flexibility

*From Mr George E. Williams.*

Sir, Ambassador Oswaldo Ramirez-Landázuri of Ecuador uses statistics very skilfully but he misses the real point of the current banana dispute ("What banana trade means to Ecuador", Letters, April 15).

Small Caribbean island states like my own are overwhelmingly dependent on banana sales to the European Union. These account for over half of all export earnings in Dominica, St Lucia and St Vincent, and for more than 30 per cent of employment.

We do not have alternatives such as oil, which until recently earned Ecuador 50 per cent more than its total banana exports. If we lose our trade to the EU, our entire economies collapse. Yet that trade is modest: 300,000 tonnes in 1997 for all traditional Caribbean suppliers, compared with Ecuador's 728,000 tonnes. Since 1991, Caribbean exports to the EU have fallen by 14 per cent; Ecuador's have risen by 21 per cent.

The ambassador described Ecuador as a small country. The total population of the four Windward Island states is 350,000, compared with Ecuador's 11m. The islands therefore have no viable domestic market as well as very limited natural resources.

The World Trade Organisation needs to take account of these special problems, in enforcing rules of free trade. It cannot be right for international trade law to insist on the ruin of really small economies simply to make room for unlimited expansion by those who already enjoy a large market share, or that the gains from trade should be based on market efficiency alone.

The crucial question is how, in the light of the WTO ruling, the EU is to fulfil its commitment under Lomé to maintain the Caribbean banana trade. Finding a viable solution will call for flexibility on the part of countries such as Ecuador and the US. The reputation of the WTO depends on it, along with the economic survival of the Caribbean banana industry.

George E. Williams,
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## Corporate euthanasia needs inquest

*From Chris Macrae.*

Sir, Never has an FT article given me such a headache as Peter Martin's "On a life support" (April 20). By being both right and wrong in equal magnitudes, I imagine it having a similar effect on the central nervous systems of many chief branding officers and many chief learning officers.

It is surely right to call for corporate euthanasia of an organisation or company brand that no longer has potential to grow value. There will be times – perhaps in the telecommunications case cited – when this may be the only decent way to change from an organisation whose culture and business was until yesterday locally regulated and today finds itself exposed to a globalising industry.

However, most value in the intangible age is not as stated in the separability of "economic purposes, contracts, relationships and assets" but in the way their unique combinatorial pattern is lived. Wherever this is organisationally not the case, we do indeed have a very badly aligned company. But we need an inquest for each such killing. Most will reveal examples of very poor leadership purpose whose mistakes need to be learnt from. Not the least because the employees who invest their individual learning passions and communal working pride in a company brand – the human energy all company brands are driven by – deserve a better explanation than that euthanasia is something economists now deem a natural part of corporate life.

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# Taming the titans

Korea's reformist president has read the riot act to the country's powerful conglomerates, but they are still resisting reforms, says **John Burton**

It was a humiliating moment for Kim Woo-chong, the chairman of Daewoo, when he announced 10 days ago that he was putting some of his prized corporate possessions up for sale, including luxury hotels, truck and telecommunications businesses, and one of the world's biggest shipyards.

Daewoo, South Korea's second-largest conglomerate, once advertised itself as the company that "dared to dream". It took Mr Kim 30 years to build his industrial powerhouse from its origins in a small textile trading company. But the dream was built on a mountain of debt, estimated at the last count at $49bn.

Even during the depths of Korea's economic crisis last year, Mr Kim denied his group was in trouble, saying exports would earn enough hard currency to service debts. But when the government warned two weeks ago that it would cut off support if the group did not shape up, Daewoo bowed to reality.

President Kim Dae-jung's "get tough" policy is his latest attempt to get Korea's big conglomerates, or *chaebol*, to reduce unsustainable levels of corporate debt and shed unproductive assets. But in taking a more confrontational stance against the *chaebol*, the president has picked some powerful opponents. It is still unclear who will emerge the victor.

The reformist president came to power in early 1998 vowing to tame the culprits of Korea's financial crisis. Gorging on borrowed funds, the *chaebol* had engaged in reckless industrial expansion with little thought to the profitability of their investments. When many projects started to fail, the *chaebol* were left with debts they could not repay. A banking crisis ensued. The International Monetary Fund was called in and a $58bn rescue operation followed.

The president has had little success so far against the mighty *chaebol*. The debts of Hyundai and Daewoo, the two biggest conglomerates, have actually increased during Korea's financial crisis, because they defied government exhortations to reform and continued to expand into new businesses.

Now the president is waving a big stick. Last week, he threatened to take control of *chaebol* units by swapping their debts with nationalised banks for equity in their companies. He also said he might appoint new managers to replace the *chaebol's* family owners. Hyundai executives, the president said, were being investigated for alleged insider trading. The implication was clearly that some managers were unfit to run their companies.

Officials say the tactics are working. Hyundai has announced an ambitious restructuring programme that would slash the number of its subsidiaries from 79 to 26. The company, a leading manufacturer of memory chips, has also done its part to rationalise production: it recently concluded a state-sponsored takeover of LG Semicon, a rival manufacturer, to reduce overcapacity in the industry – although not before some serious government prodding to raise its bid price.

Korean Air (KAL), the national flag carrier, is another target of the government's reforms. It is under orders to shake up management after President Kim criticised the airline for its poor safety record. He said government credit for KAL would be frozen unless the management power of family owners was reduced.

But the president's victories could prove illusory. Hyundai's reform plan was vague on details and Daewoo may not be able to find buyers for the businesses it has put up for sale.

"Many of the *chaebol* assets are unlikely to attract foreign investors," says Namuh Rhee, the head of research at Samsung Securities.

Richard Samuelson, of Warburg Dillon Reed, adds: "Corporate restructuring will mean few if any factories are closed, as over-investment is Korea's core problem."

Take the merger of the Hyundai and LG semiconductor units: it was meant to be the centrepiece of the government's industrial rationalisation programme. But any surplus plants are unlikely to be shut for another two or three years, if then.

And while the KAL chairman has resigned, he has named his son and a loyal corporate retainer to manage the airline. The president apparently lost the battle to appoint a new slate of professional executives.

Some analysts see a mood of complacency setting in as the economy improves.

**Investors were hoping that discipline would be reimposed on the chaebol when Korea's banks were sold. But the government is wavering**

Gross domestic product is projected to grow by at least 2 per cent this year. Foreign investors are eager again to buy new overseas bond and equity issues by blue-chip companies. The stock market is booming, and foreign reserves are growing as Korea's trade account has moved into surplus. This has led the *chaebol* to hope that perhaps they may be able to ride out the storm without radical restructuring.

In addition, the government's loose monetary policy, designed to jump-start economic activity, has weakened financial discipline within the *chaebol*.

The government has already propped up troubled middle-sized *chaebol* to avoid a wave of destabilising bankruptcies. Banks are providing subsidised credit to 18 failed groups under "work out" programmes in the hope that the return of economic prosperity will allow them to survive.

But their management has not been changed. "None of them have been rehabilitated, but all continue to operate plant in industries plagued with massive excess capacity. Healthy competitors and the financial sector are sustaining heavy damage as a result," says Stephen Marvin at Jardine Fleming in Seoul.

The state has nationalised most of the big banks to prevent their collapse. They may now be forced to conduct debt-for-equity swaps, which is not great news for the banks. "It will leave the banks holding the worst stocks. Good companies with strong cashflows and earnings have little incentive to convert debt to equity. Only the bad ones do," says Yong Han, banking analyst at SG Securities in Seoul.

Overseas investors were hoping that financial discipline would be reimposed on the *chaebol* when Korea's banks were sold to foreigners. But there are signs that the government is wavering on this point.

The proposed sale of Korea First Bank to Newbridge Capital, a US investment firm, was to have been the first foreign takeover of a Korean bank. It now appears to be on the verge of collapse, after the government made new demands.

Another brake on *chaebol* restructuring is labour unrest. There were violent protests in Seoul last weekend, sparked by trade union fears of big job losses. The unemployment rate has already passed the 8 per cent mark, and trade unionists say the country's social welfare system is inadequate to care for those out of work. Workers at Daewoo Heavy Industries downed tools last week after the group announced it would sell the shipyard. The conflict could spread to other important export industries.

The unemployment problem weighs heavily on the president, not only because of its social cost but also its political impact. He heads an uneasy coalition government, and he faces elections next year. Rising unemployment would cost him votes. But the risk is that Korea is storing up future trouble if it eases on corporate restructuring now. An unchanged system of weak banks subsidising unprofitable *chaebol* could make Korea vulnerable to another economic crisis.

COMMENT & ANALYSIS

FINANCIAL TIMES

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Wednesday April 28 1999

# Lost horizon of European arms

European co-operation in defence procurement has been badly damaged. But Britain's decision to pull out of Horizon, the three-nation naval frigates project, should not be the signal for a general retreat.

In future decades, European nations will have only two options for equipping their military forces at reasonable cost. Unless they seek economies of scale by shared development, they will be obliged to rely increasingly on the US for high technology weapons.

This is not to suggest that a fortress Europe policy would be a sensible alternative to transatlantic co-operation. But European defence companies need to consider alliances from a position of relative strength. Moreover European governments must ensure that their own suppliers can offer competition to an increasingly consolidated US industry.

But this is unlikely to happen unless a common understanding can be reached on why the Horizon project foundered, three years after the UK, France and Italy agreed to build 22 ships at a cost of £7bn.

The protracted wrangles between the partners had two basic causes. First, they disagreed about what the ships' missile systems should be required to do. This led Britain to reject the Italian-designed Empar radar in favour of Sampson, a British system which it claimed was more versatile. There were also long arguments about the command and control computers. Britain wanted them to be more sophisticated. An awkward compromise was attempted, but failed. However, the joint missile project has been salvaged.

The second cause of dissension proved more intractable. Britain insisted on a single lead contractor with wide discretion to manage the project and accept commercial risk. France and Italy wanted a management structure that divided responsibility within the consortium and allowed more intervention by state officials.

Even these difficulties might have been overcome. But differences of style within the consortium, ranging from that of state owned French companies to the UK private sector, proved unbridgeable. Delivery had already slipped by five years. When the cost rose to 20 per cent above budget, Britain pulled out.

One moral of this sorry tale is that governments co-operating in procurement must be prepared to compromise until they reach a common specification. But this is not enough. Such highly complex projects are unlikely to succeed unless they are under strong industrial management. This may result from mergers or alliances of like-minded companies – or both. But attempts to create cross-border unions from state-owned and private defence contractors is almost doomed to end in divorce.

# Unholy cows

On Wall Street, the big spectacle right now is the apparently endless rise of precocious internet stocks, with names few investors had heard of until a year or so ago. In Europe, the crowd-puller is the mating dance between the former telecommunications monopolies of Germany and Italy, known but little loved by generations of subscribers. These different stories say as much about the industrial order as about financial fashion on either side of the Atlantic.

US internet stocks may yet crash to earth. But it is a fair bet that some will rise again, and that others will spring up to take the place of the fallen. That has long been the pattern in US information industries, whose competitive vigour and ceaseless innovation owe much to investors' willingness to back a constant stream of promising new ideas and enterprising individuals.

Contrast that approach to structural change with the proposed merger of Deutsche Telekom and Telecom Italia. The value of the deal may break all records and transfix politicians in Bonn and Rome. However, as an industrial proposition, it looks uninspired. Far from laying the foundations for an expansive competitive future, it bears all the signs of a defensive move by two companies burdened by the baggage of their past.

Efforts to present the deal as the birth of a global titan only underline its defects. Not only is size no guarantee of success. But the companies' survival depends on shedding the flab they put on while universal service monopolies, so as to exploit markets transformed by competition. The mammoth task of integrating their businesses seems unlikely to sharpen that focus.

Ever since *The American Challenge* was published 30 years ago, corporate gigantism has been defended in Europe as an essential response to US industrial strength. The argument is fallacious. The most successful US international competitors in fast-growing industries are agile young companies. They flourish because old incumbents are not allowed to block their path. One reason the US has the world's most dynamic telecoms market today is its decision more than 15 years ago not to treat AT&T as a national champion, but to break it up. The process was messy, but it opened the market to thousands of new entrants.

European Union competition authorities are right to worry that a Deutsche Telekom-Telecom Italia merger could thwart competition. But if Europe is to match US industrial vibrancy, it needs to do more than curb the old order. It must also be ready to let a new one emerge out of the unpredictable forces of creative destruction.

# German jobless

Nobody wants to see German unemployment falling more than Gerhard Schröder, the chancellor, who has made job creation the measure of his political success. Unfortunately, though, the unemployment rate is stubbornly high in both west and east Germany, and is likely to remain so for some time to come.

Germany's economy is slowing, a consequence of exposure to the emerging markets, and of a loss of confidence resulting from the government's tax plans.

A report by the six leading German economic institutes, published yesterday, predicts output growth of 1.7 per cent this year – and this is at the optimistic end of forecasts. It is hard to see unemployment falling when economic activity is so sluggish.

Yesterday's report does give Mr Schröder some cause for hope. Improved export growth in 2000, it says, will lead to higher output growth, and a fall in unemployment from its current level of 10.5 per cent to 9.9 per cent.

But this again relies on an optimistic economic forecast. More importantly, with structural unemployment of 9.8 per cent (according to the Organisation for Economic Co-operation and Development), Germany needs more than a cyclical economic improvement to make a sizeable dent in the jobless total.

The first, essential step is to construct a more business-friendly tax regime to revive domestic investment; more widespread labour market reforms should then follow. This will be a painful process. Quite apart from the political obstacles, reforms could lead to a rise in unemployment in the short term, as companies take the opportunity to shed unwanted staff. The benefits of increased labour market flexibility will only show over time, as more companies choose to invest in Germany.

Apart from structural obstacles to employment growth, Germany has another, more intractable problem: hourly manufacturing wages are among the highest in the industrial world. The obvious answer is a devaluation, but membership of European economic and monetary union makes this impossible. The alternative is wage restraint, which (over many years) would bring relative wages back into line.

Despite low inflation, though, settlements have started to creep upward – the economic institutes predict 3 per cent wage growth this year. Germany's unemployment problem demands labour market reform; an economic upturn can make only a marginal difference. Unfortunately, these reforms may take many years to pay off, and this time-lag may not coincide with the electoral cycle. Mr Schröder must have the nerve to put economic sense above short-term political expediency.

# Happier days are here again

## The world economy is reviving, but much depends on the continued health of the US, says Martin Wolf

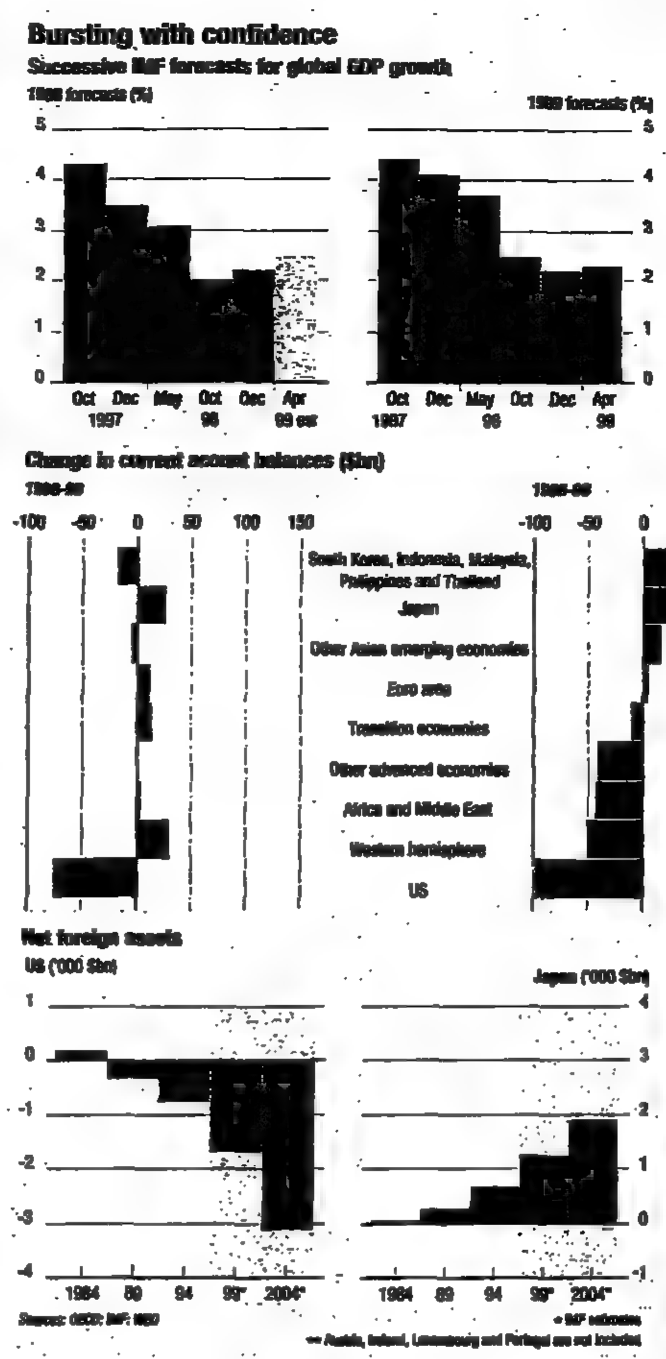
Even Michel Camdessus, battle-weary head of the International Monetary Fund, agrees that the global financial crisis triggered by Thailand's devaluation in July 1997 "seems to be over". The communiqué of the finance ministers and central bank governors of the group of seven leading economies welcomes "the return of more stable conditions" to emerging market economies. Is this optimism justified? "Up to a point" is the answer.

Perhaps the most revealing indicator is what has happened to the forecasts. The latest IMF World Economic Outlook has virtually the same forecast for global growth in 1999 as it had last October (see chart). This is a big change from what happened earlier on: between October 1997 and October 1998, the WEO's forecast for growth this year had been lowered from 4.4 per cent to 2.5 per cent.

When things go badly, forecasters usually lag behind the increasingly grim reality. The reverse happens when performance starts to turn around. For that reason alone, world growth this year is more likely to delight than disappoint.

Much of the credit for avoiding disaster goes to the US. Indeed if the world wished to erect a monument to the hero of the battle against depression, the honour would have to go to the unknown American consumer. With aggregate demand growth of 5 per cent last year (up from 4½ per cent in 1997), US consumers and investors generated, astonishingly, close to half of the increase in total world demand.

Much the most economically significant upgrades in the IMF's forecasts have also been for the US. Last May, the WEO forecast that the US economy would grow 2.9 per cent last year and 2.2 per cent in 1999. Now, a year later, we know that US growth was 3.9 per cent last year, while the forecast for this year is 3.3 per cent. The forecast for 1999 has been raised by 1.5 percentage points since December of last year.




If the US is much the brightest spot in the global picture, recovery in Asia is the second. Consider, for example, the newly industrialised Asian economies: Hong Kong, Korea, Singapore and Taiwan. The IMF's pessimism about the group was greatest last October, when growth was forecast to be a mere 0.7 per cent this year, after a 2.9 per cent contraction in 1998. Last year's decline has since turned out to be "only" minus 1.5 per cent, while the forecast for this year is already up to 2.1 per cent.

South Korea is both the most important and the most striking case. A chart in the WEO indicates that its industrial output is closely following the Mexican trajectory of 1995 and 1996. The same is true, though to a lesser extent, of Thailand. After declining 8 per cent last year, Thailand is now expected to manage economic growth of 1 per cent this year and 3 per cent in 2000. Better still, South Korea is expected to manage growth of 2 per cent this year, following a decline of 5.5 per cent in 1998, with growth up to 4.6 per cent in 2000.

The third reason for returning optimism is that the widely feared Brazilian devaluation caused nothing close to the expected disruption. The *real*, which dropped as low as R$2.16 to the US dollar at one point, is back to R$1.70. Inflation may not be not much more than 10 per cent this year. The central bank has already been able to lower interest rates from a post-devaluation peak of 45 per cent, to 32 per cent. The Brazilian economy is forecast by the IMF to contract by close to 4 per cent this year. But that now seems on the gloomy side.

Brazil is just a part of the general improvement in market conditions. The spread of emerging market bonds vis a vis US government securities shown in JP Morgan's index has declined more than 6 percentage points from its peak on September 10. The dollar value of the ING Barings emerging market index is up 60 per cent since its trough the following day. In its latest forecasts, the Washington-based Institute for International Finance suggests that net private flows to emerging markets will be about the same as last year's. As important, the IIF expects relatively stable direct investment to make up three quarters of the aggregate net flow of private finance to emerging markets in 1999.

Yet joy is not unalloyed. Above all, among the six largest advanced economies, US performance has been quite unique. Admittedly, growth in the European Union last year, at a reasonably healthy 2.8 per cent, was close to forecasts made in late 1997 and early 1998. But the forecasts for this year have been downgraded successively. Last May, for example, the IMF expected growth in the EU to be 2.8 per cent in 1999. This expectation has since been progressively lowered, most recently to 1.8 per cent.

If Europe disappoints, Japan dismays. Only last May the IMF forecast Japanese growth in 1998 at zero. It turned out to be *minus* 2.8 per cent. Again, last May, the IMF forecast Japanese growth this year at 1.3 per cent. Now its forecast is *minus* 1.4 per cent.

Yet a qualified optimism does appear justified. It is now conceivable that continued growth in North America will combine with recovery in emerging market economies, stronger growth in western Europe and an end to contraction in Japan to give even better than the 3.4 per cent expansion in world output forecast by the IMF for next year.

**The unknown American consumer is the hero of the battle against global depression**

So is all well that ends well? "Only if the recovery continues" must be the answer. Inevitably, there are important risks. Consider four.

First, between 1996 and 1998 the biggest offset to the huge shift in the current accounts of the afflicted Asian economies and Japan was the deterioration in the current account of the US (see chart). Between 1998 and 1999, the US current account is expected to become the dominant offset to further rises in Japan's surplus and the big shift in the current accounts of the western hemisphere and the transition economies of central and eastern Europe. Thus, Japan is an important source of strain, while the euro area makes no positive contribution to the global external adjustments.

The US ability to increase its external deficit so rapidly has been hugely beneficial, to itself and to the rest of the world. But how long can it continue to perform this role? The principal reason for concern is that this also entails a progressive increase in US net external indebtedness (see chart). The WEO suggests that, on present trends, the ratio of US net liabilities to gross domestic product is set to rise from 10 per cent in 1994, to 20 per cent this year and 30 per cent, by 2004. The willingness of the rest of the world to hold claims on the US is not inexhaustible.

The worry is that any refusal to hold ever US assets will come in the usual panic-stricken rush. Should foreigners decide not to increase their exposure to the US economy, there could be a sharp fall in the US dollar. This could force the Federal Reserve to tighten monetary policy, bringing the great US expansion to a sharp end.

Second, behind the deterioration in the current account lies the excess of US private sector investment over saving, which is now 5 per cent of GDP, the largest it has been in the postwar period. This deficit is, in fact, just as big as that of the UK at the peak of its boom in the late 1980s. Behind it is the strength of US asset prices as an engine of consumption and investment. The worry is that the closure of the gap between private spending and income will not be smooth. Other advanced economies that have been forced into similar corrections – the UK, Japan, Finland and Sweden – all suffered recessions. Will the US avoid the same fate?

Nobody knows. But should the trigger for adjustment be either a sharp dollar decline or a big stock market correction, it might prove difficult to avoid. The impact on the rest of the world would then depend on how far the US adjustment was offset – or even caused – by strong demand growth elsewhere.

Third, there is, in fact, little sign of strong growth outside the US. Japan could even slip into a deeper recession. The euro area could remain in the doldrums. The recovery in emerging market economies could well remain weak. That might not matter too much, provided US growth remained strong.

Up to now, the vigorous US economic performance has been a counter to feeble growth everywhere else. The US has also benefited from the disinflationary impact of the weakness elsewhere. What has been bad for the world has been good for the US.

If there were a strong recovery outside the US, that would raise returns on assets in those economies, probably generating a shift away from US assets and a corresponding weakening of the dollar. This might well cause higher interest rates in the US, undermining the vigour of the US economy But the impact of that upon the world would be offset by the growing strength of activity elsewhere. The nightmare would occur only if the US private sector corrected its imbalances while the European and Japanese economies remained weak.

Fourth, while the state of emerging market finance looks better, all danger is not yet in the past. Yet at least the short-term finance which caused so much of the disarray has mostly left the afflicted economies. May it stay away! So long as it does, it is difficult to see where another panic might come from.

The bottom line is that the strength of the US economy has carried the world through this crisis. But the damage done has been severe. Tens of millions of people have lost a degree of comfort it took a lifetime to achieve. This is why it so important that the world learns the right lessons for the future.

Right now, however, it looks as though recovery lies ahead. But almost everything depends on how the US finally adjusts to what appear unsustainable internal and external imbalances. Provided that adjustment occurs in the context of strong global recovery, not least in Europe and Japan, all should be well. If it does not, more serious trouble must lie ahead. The omens now look quite good. For how long? That is the question.

*Martin.Wolf@ft.com*

# OBSERVER

### A German Waterloo

His sudden and spectacular departure last month amazed all those around him. And it was never likely that Oskar Lafontaine would stay silent for long.

True to form, Germany's fiery former finance chief is due to open his celebrated mouth in a public place once again – at a trade union rally this Saturday in his native Saarland.

He's not expected to confine himself to pleasantries: the alleged injustice of Nato's airstrikes on Kosovo is just one theme he's considering for his first big public reappearance.

But Chancellor Gerhard Schröder need not tremble quite yet. He and Lafontaine are far from bosom buddies, as the last, fraught days of their time together in government proved.

Still, Lafontaine's cause hasn't been helped by the speed and petulance with which he threw in the towel, ditching party as well as government posts. He never properly explained why he needed to go, except for a few arch remarks suggesting others were at fault.

It's all cost him plenty of credibility in the party he once dominated. And it may not be long before even Saarland Social Democrats tire of their old comrade. The party faces an election in the state this September and Lafontaine isn't exactly a guaranteed vote-getter. Once he was known as the Napoleon of the Saarland. But perhaps he's finally reached his St Helena.

### Top flight

How about practising what you preach? A humiliated Warren Jenson, chief financial officer of Delta Air Lines, had free flight privileges for him and his family suspended last week after his children delayed an Atlanta-Denver flight, so they could sit in first class.

The flying faux pas happened in March when three of Jenson's brood and one of their friends showed up late at the gate. Jenson's secretary, who was chaperoning the kids, fought with agents to get them seated in first class, bumping passengers who'd already paid for those seats back to coach. Their friend even received a free upgrade – a violation of ticketing rules Jenson himself has championed. Fuming passengers were forced to wait an extra 24 minutes before take-off.

A remorseful Jenson shelled out $1,000 to reimburse the airline. But apparently, that wasn't enough. After a private meeting with the chief executive, he also turned in his free flight privileges for six months and issued a short memo to employees: "I take complete responsibility for what happened. The blame goes no further."

Maybe the high-flyer should consider economy class.

### Tight lipped

This week, when Brazil's former central bank head went before a Senate inquiry into allegations of corruption, he could have used the hearing to try to recover his political credibility.

Instead Francisco Lopes took his lawyers' advice that any evidence could be used against him and refused to sign an oath.

In political terms, it was suicide. By snubbing his nose at the Senate Lopes has also ensured he'll remain the focus of the various investigations into the case.

Ever since police found evidence that he had $1.6m in a foreign bank account during a raid on his flat 10 days ago, his accusers have been circling. The most serious allegation is that he was involved in a scheme to sell interest rate information to a bank which later folded – even though it also bought cheap dollars from the central bank.

So why the silence? Perhaps it's down to a little influence from Bill Clinton. After all, Lopes wasn't the first public figure in the last 12 months to ignore the political advisers and do what the lawyers say.

### Food fight

European environmentalists will be choking on their organic cuisine: President Clinton has awarded the National Medal of Technology to the four Monsanto scientists who helped pioneer genetically modified foods.

In Europe, GM foods have aroused a storm of controversy. Protesters have destroyed test crops. Governments have questioned the morality of creating a master race of apples and pears. There's even been talk of another US-European trade war. But not so in the US where these megastars of biotech – Ernest Jaworski, Stephen Rogers, Robert Fraley and Robert Horsch – are being feted as heroes.

They began their experiments using petunias and tobacco. And on the day it became clear that they'd successfully transferred a gene to a plant, Horsch said the four "let out a whoop and proceeded to stage a rather loud parade through the halls". Ernest Jaworski, the team leader, even went home early to celebrate.

Stephen Rogers is saddened by opposition from environmental groups he considers to be allies. "They are being misinformed by the economic and political interests that are losing power with the introduction of these crops," he says. A former amateur magician, he's become too rusty to perform. But as director of Monsanto's Cereals Technology Centre in Cambridge, England, he'll need a few tricks up his sleeve if he hopes to win over the opponents.

The Financial Times

## 100 years ago

**New British Pacific cable**
Holders of Cable Companies' shares who have been alarmed by the reports of the success of the Marconi system of wireless telegraphy may take heart when they learn that the British Government has decided to contribute a subsidy to a new Pacific cable. It seems barely credible that our Government should decide upon laying an ocean cable of some seven thousand miles in length at a probable cost of about two millions sterling if they conceived it even probable that a cheaper system of wireless telegraphy could be made the serve the same purpose.

## 50 years ago

**Steel debate cut**
Uproar in the Commons marked the termination of the first allotted period for the Report stage debate of the Steel bill. Opposition cries of "Disgrace" were drowned by cheers from Labour Benches. Admission that the Steel Corporation would be mainly a holding company with no powers to undertake activities other than research or common services without Ministerial consent was made by the Minister of Supply.

FINANCIAL TIMES
WEDNESDAY APRIL 28 1999



## THE LEX COLUMN

# Hostile to investors

It is hard to understand the logic behind the Italian central bank's decision to block San Paolo-IMI's bid for Banca di Roma. The stated reason – that hostile bids for banks are out because they might harm the financial system – seems pretty thin. The move certainly adds a new twist to the struggle under way in the banking sector. By this logic, Banca Commerciale Italiana, which has also received an unsolicited bid in this consolidation wave, could have it blocked simply by rejecting it.

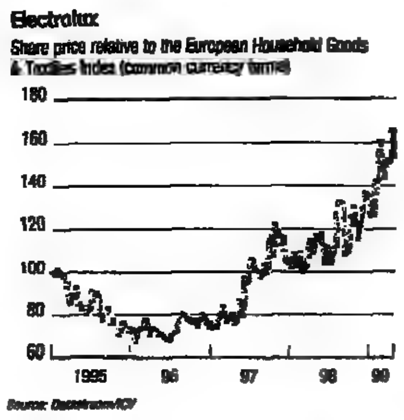
So far, Banca di Roma's shareholders are the biggest losers. They have been denied a reasonable premium and a chance to benefit from the much-needed rationalisation of Italy's overcrowded banking market. But if the central bank's decision impedes further consolidation – or triggers a revival of backroom deals dominated by the old guard of Italian finance – the whole sector could suffer.

A charitable conclusion is that the central bank has been shaken by the way banks have rapidly started consolidating to deal with the challenge of the euro. It thinks it has a strategic role in guiding the process, and was miffed when San Paolo-IMI launched its bid for Banca di Roma without seeking approval. If so, the central bank should think again – and let the market decide.

### Electrolux

It might look tempting for Michael Treschow, chief executive of Electrolux, to take a breather after nearly two years' hard labour restructuring the household appliances group. After all, renewed interest in cyclical stocks has compounded gains from his cost-cutting drive, and the B shares have doubled on the Stockholm market in the past two years. But yesterday's initial share price wobble – on unfavourable comparisons with Whirlpool and concern about margin improvement momentum – demonstrates how high expectations now are.

Nevertheless, delivery of the present package of promises looks on course. It would be astonishing if, after SKr2.5bn ($298m) of restructuring costs, Electrolux's operating margins did not top 6½ per cent next year. And with help from falling interest costs, it should manage a 40-50 per cent earnings per share improvement between 1998 and 2000. Against that background, Electrolux was sensibly pacing itself yesterday with its cautious stance on European demand.




But with most of the factory closures and job cuts completed, attention is bound to turn to Mr Treschow's next line of attack to improve performance. The group still has some way to go in exploiting its purchasing power and in culling smaller brands. Monetary union and retail consolidation will help the first, Mr Treschow's admirable ruthlessness the second. The shares are far from cheap, but this story still has some way to run.

### Starwood/Hilton

Is the curse of ITT finally being laid to rest? Neither Starwood nor Hilton, which fought a $10bn takeover battle for the hotels and gaming group in late 1997, have fared well since. Following yesterday's $3bn sale of Caesars casinos – one of the jewels in ITT's crown – by Starwood to a Hilton offshoot, they must be hoping for a change of luck.

Starwood, which won, has subsequently underperformed the US market by 60 per cent. It cannot be blamed for falling Asian tourism and financial problems at other real estate investment trusts. But its aggressive, highly leveraged bid for ITT was poorly timed, given a glut of new hotels and casinos. And it woke up Washington regulators who browbeat it into abandoning tax perks under the "paired share" structure. Shorn of Caesars, Starwood will be a clean hotels company, with debt down to a more manageable $5.3bn or 50 per cent of enterprise value. The management's task now is to squeeze higher returns from its 700-strong portfolio.

Hilton, the loser, has scarcely fared better. Under investor pressure it demerged its gaming operation last December. The new company, Park Place Entertainment, has now snapped up Caesars for a cheap-looking seven times cashflow, making it the world's largest casino operator. But it is a slightly hollow victory. Even adjusting for the demerger, Hilton has trailed the market by 40 per cent. And a big hotel deal still eludes it.

### British Sky Broadcasting

Mark Booth must fancy his skills as an internet venture capitalist. To most minds, resigning as chief executive of British Sky Broadcasting, a £10bn ($16bn) pay-television giant, to set up e-partners, a new venture backed by $300m of News Corporation money, looks an odd career move. It seems stranger still set against a rival job offer from Microsoft which came with a $25m starting bonus. Such is the draw of internet riches that it has now snared even Rupert Murdoch, one of the web stocks' most prominent bears.

All that is very nice. But sceptics might wonder why Mr Booth wants to end his successful 17-month reign at BSkyB. The shares have done creditably, modestly outperforming the market. And next week's subscriber numbers are likely to confirm that he is managing well the group's delicate job of shifting its old analogue customer base to the new multi-channel digital environment. It is also besting rival platform On Digital in the market for new subscribers. The most plausible explanation is that Mr Booth wisely explored his job options when News Corp started negotiating the merger of 40 per cent-owned BSkyB with Canal Plus. It would be understandable if relations with Mr Booth deteriorated at this point, though Mr Murdoch has obviously been practical enough to hang on to a talented executive. The Canal Plus talks may revive now that the most obvious management obstacle has been removed. But political and regulatory hurdles mean the deal remains an unlikely near-term prospect.

# Colorado massacre spurs Clinton to propose gun law

## New legislation would restrict purchase of firearms and explosives

By Mark Suzman in Washington

President Bill Clinton yesterday proposed legislation to restrict purchases of guns and explosives but stopped short of calling for sweeping reform of US gun ownership laws.

Seeking to capitalise on outrage at last week's Colorado school massacre, Mr Clinton hit out at opponents of gun control, charging them with "defending the indefensible" and using "distorted logic and denial".

The president argued that new laws were needed to prevent similar tragedies. He announced a wide-ranging crime bill that would ban under-21s from owning handguns and assault weapons, subject explosives-buyers to background checks and impose a lifetime ban on gun ownership for people who commit violent crimes as juveniles.

The bill also recycles proposals contained in previous failed legislative initiatives – requiring manufacturers to install gun safety locks and calling for a mandatory waiting period before someone can purchase a weapon.

The legislation also seeks to reduce gun-running by limiting the legal maximum for handgun purchases to one per person per month.

White House officials acknowledged that the package contained few fresh proposals but said the bill represented a comprehensive package that had a realistic chance of being implemented.

Gun control initiatives in the US have traditionally been easily defeated in Congress, in large part because of the lobbying of the powerful National Rifle Association. The NRA argues that restrictions on gun ownership are unconstitutional.

Although the bill is backed by some Republican moderates, the party's leaders have been reluctant to endorse tougher gun control measures.

Trent Lott, Senate majority leader, and Dennis Hastert, House speaker, are planning a national conference on youth and culture as part of an effort to focus on social factors that might have contributed to the murders.

Some Democrats, including Tom Daschle, the Senate minority leader, have expressed doubts about the prospect of passing gun legislation as a means of stopping such killings.

Mr Clinton's decision to implement a ban on some forms of assault weapons in 1994 was seen as contributing to the party's loss of control of Congress in that year's elections.

Joe Lockhart, Mr Clinton's press secretary, said the new crime bill had been on the president's agenda for months but that he believed the killings had improved the prospects for Congressional action.

"Unfortunately, it often takes tragic events to catalyse work here in Washington," he said.

Under previous legislation, which expired last year, police were allowed as much as five days to conduct background checks. Mr Clinton's initiative would impose a minimum mandatory waiting period of three days.

It also proposes mandatory prison sentences for adults who "knowingly or recklessly" allowed a juvenile access to a gun that results in injury or death or is used in a crime.

# China to reassure public with savings protection scheme

By James Harding in Beijing

China plans to establish an insurance scheme for savings deposits to boost fragile public confidence in the financial sector and enhance the commercial independence of its banks.

Recent signs of public concern about the health of the country's smaller banks and non-bank financial institutions have prompted government officials to explore ways of protecting personal savings if banks fail.

Some city commercial banks have run into financial difficulties, triggering isolated bank runs, according to officials. These incidents, and the failure last year of Guangdong International Trust and Investment Corporation (Gitic), a prominent investment company, have focused attention on the catastrophic impact on the financial sector if public confidence were to collapse and Chinese depositors rushed to withdraw their Rmb5,780bn ($698bn) of personal bank savings.

"After the [Asian financial] crisis, we can see that a small fire can ignite the big fire to burn up public confidence," Zhu Xiaohua, chairman of China Everbright, one of the country's leading commercial banks, said yesterday.

Dai Xianglong, the central bank governor, has endorsed the plan as a priority of financial reform. "We should establish a deposit insurance mechanism," he said this week, but did not elaborate on the details.

Chinese academics have proposed a deposit insurance system under which savings deposits in banks would be guaranteed by insurance companies. They argue that Chinese savers would feel more secure and the state-owned banks would strive to improve the management and quality of assets in order to lower financial risks and thereby reduce insurance premiums.

In the absence of a deposit insurance system, China's state-owned banks and finance companies have tended to assume the government will ultimately bail them out.

However, last year Beijing refused to bail out Gitic, which had provincial government backing.

The Gitic collapse raised official awareness of the need to ensure depositor confidence – as well as the 150 foreign financial institutions seeking to recover billions of dollars from the company, more than 20,000 local Chinese depositors are owed an estimated Rmb780m.

Separately, Bank of China, one of the big four state-owned commercial banks, announced yesterday that it would establish an asset management company in the second half of this year to repackage and sell on its non-performing loans. The China Construction Bank this month set up China's first asset management company to deal with its problem loan portfolio.

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Indonesian president B. J. Habibie, right, jokes about his height with Australian prime minister John Howard at a summit on E Timor. Page 4

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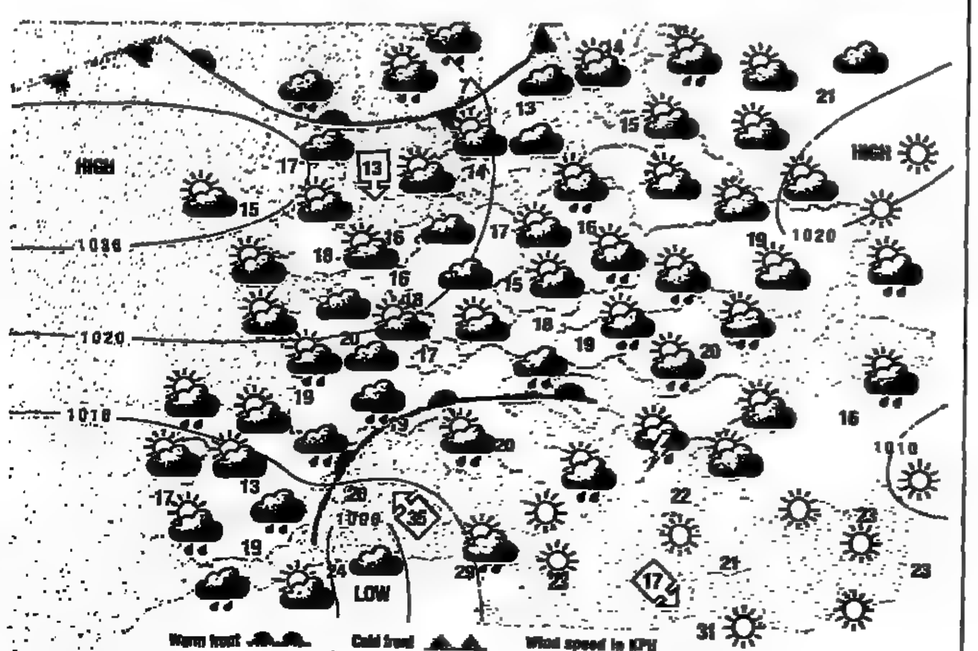
## FT WEATHER GUIDE

### Europe today

Northern parts of Norway, Sweden and Finland will be cloudy with rain. Southern Scandinavia will have sunny spells and showers. The Low Countries and most of France will be dry with some sunshine. A warm front will bring rain to the south of France, eastern parts of Spain and northern Italy. Eastern Europe will be mild and unsettled with sunny spells and showers. Much of the central and eastern Mediterranean will be mainly dry with plenty of sunshine, although Greece will have occasional showers.

### Five-day forecast

Unsettled and showery conditions over the Iberian peninsula will push northwards in the next couple of days, threatening thundery showers for north-west Europe. The rest of the Mediterranean will be settled with some sunshine, although there will be showers in Italy. Scandinavia will remain cool and showery.




Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

**TODAY'S TEMPERATURES**

Maximum Celsius

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Abu Dhabi | Sun | 38 | Bangkok | Fair | 35 | C.hagen | Fair | 14 | Edinburgh | Fair | 17 | Madeira | Fair | 19 | Rangoon | Fair | 35 |
| Accra | Fair | 33 | Barcelona | Rain | 17 | Cairo | Sun | 29 | Faro | Shower | 18 | Madrid | Rain | [illegible] | Reykjavik | Shower | 8 |
| Algiers | Fair | 24 | Beijing | Fair | 23 | Caracas | Fair | 30 | Frankfurt | Fair | 18 | Majorca | Shower | 20 | Rio | Thunder | 27 |
| Amsterdam | Fair | 16 | Belfast | Cloudy | 15 | Cardiff | Fair | 17 | Geneva | Fair | 17 | Malta | Sun | 23 | Rome | Shower | 20 |
| Athens | Sun | 22 | Belgrade | Fair | 19 | Casablanca | Thunder | 20 | Gibraltar | Shower | 17 | Manchester | Fair | 17 | S. Frsco | Fair | 14 |
| Atlanta | Shower | 24 | Berlin | Fair | 17 | Chicago | Fair | 12 | Glasgow | Fair | 17 | Manila | Fair | 34 | Seoul | Sun | 20 |
| B. Aires | Fair | 23 | Bermuda | Fair | 23 | Cologne | Cloudy | 17 | Hamburg | Fair | 17 | Melbourne | Shower | 17 | Singapore | Cloudy | 33 |
| B.ham | Fair | 18 | Bogota | Shower | 19 | Dakar | Fair | 26 | Helsinki | Fair | 14 | Mexico City | Fair | 30 | Stockholm | Cloudy | 13 |
| | | | Bombay | Fair | 32 | Dallas | Sun | 30 | Hong Kong | Fair | 25 | Miami | Thunder | 30 | Strasbourg | Fair | 19 |
| | | | Brussels | Fair | 16 | Delhi | Sun | 42 | Honolulu | Fair | 29 | Milan | Fair | 20 | Sydney | Shower | 18 |
| | | | Budapest | Fair | 19 | Dubai | Sun | 37 | Istanbul | Fair | [illegible] | Montreal | Fair | 13 | Tangier | Shower | 19 |
| | | | | | | Dublin | Fair | 16 | Jakarta | Fair | 33 | Moscow | Fair | 21 | Tel Aviv | Sun | 23 |
| | | | | | | Dubrovnik | Fair | 19 | Jersey | Fair | 13 | Munich | Fair | 17 | Tokyo | Shower | 21 |
| | | | | | | | | | Johannesburg | Fair | 19 | Nairobi | Fair | 26 | Toronto | Fair | 14 |
| | | | | | | | | | Karachi | Sun | 40 | Naples | Fair | 23 | Vancouver | Sun | 13 |
| | | | | | | | | | Kuwait | Sun | 40 | Nassau | Fair | 31 | Venice | Sun | 21 |
| | | | | | | | | | L. Angeles | Fair | 16 | New York | Sun | 17 | Vienna | Fair | 18 |
| | | | | | | | | | Las Palmas | Fair | 21 | Nice | Fair | 20 | Warsaw | Shower | 16 |
| | | | | | | | | | Lima | Fair | 25 | Nicosia | Sun | 28 | Washington | Shower | 16 |
| | | | | | | | | | Lisbon | Shower | 17 | Oslo | Fair | 7 | Wellington | Fair | 15 |
| | | | | | | | | | London | Fair | 18 | Paris | Fair | 20 | Winnipeg | Sun | 17 |
| | | | | | | | | | Luxbourg | Fair | 18 | Perth | Sun | 26 | Zurich | Fair | 17 |
| | | | | | | | | | Lyon | Fair | 18 | Prague | Cloudy | 15 | | | |





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FINANCIAL TIMES
# COMPANIES & MARKETS
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## INSIDE



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## MARKET STATISTICS



# Sony forecasts fall in PlayStation sales

## Sega's Dreamcast console brings stiff competition

By Paul Abrahams in Tokyo

The meteoric rise of PlayStation, the games console that swept aside established rivals from Sega and Nintendo and re-ignited profits at Sony, is at an end.

Sony Music Entertainment, the music and computer game subsidiary of the Japanese group, yesterday warned that PlayStation sales would fall this year after four years of phenomenal growth.

The warning is a blow for Sony. The parent company is struggling with lacklustre demand for its traditional audio-visual products, and has become used to strong sales growth and operating profits from the computer games business. In just four years, the *PlayStation came from nowhere to become the world's* top-selling games machine, toppling machines from Sega and Nintendo.

The group is now facing increased competition from Sega's more powerful Dreamcast product, launched last year in Japan and scheduled to be introduced into the US and Europe later this year.

Sony has announced the specifications for the PlayStation 2 to meet the competition from Dreamcast. But it must make the difficult transition to its next generation product without unnecessarily undermining sales of the original. The group said it did not expect PlayStation 2 to make a significant contribution to the current year's results.

Sony, which in January intends to acquire all the shares in Sony Music Entertainment it does not own, will announce full-year results today.

Kazutoshi Shiraishi, executive vice-president at Sony Music Entertainment, said *global sales of the PlayStation* console in the year to March 2000 would fall from last year's 21.6m units to 17m. He said sales growth had peaked in Japan, down from 4.95m units to 3.75m in the year to March. Sales in Europe, which expanded from 6.9m units to 8.9m units last year, are expected to continue to grow. In the US, they were up from 7.72m units to 8.95m last year.

The strong growth of the PlayStation last year – thanks to software titles such as Crash Bandicoot – offset poor results at Sony Music's traditional recording and music operations.

For the year ending March 31, Sony Music Entertainment's pre-tax profits excluding exceptionals jumped from ¥19.54bn to ¥35.88bn ($301m) on flat turnover at ¥226bn. However, net earnings fell from ¥36.98bn to ¥31.86bn and operating profits fell from ¥18.25bn to just ¥246m.

Mr Shiraishi warned that this year the dividend income from Sony Computer Entertainment – its 49.9 per cent affiliate which markets the PlayStation – was likely to fall from ¥35.8bn last year to ¥30bn in the current year. He predicted pre-tax profits for the whole company of ¥42.7bn and net earnings of ¥87.2bn on sales of ¥222.7bn.

A Sony quality assurance worker puts a PlayStation game through its paces at the company's offices in Foster City, California Picture: AP

# Disney shares slip 5% after profits warning

By Christopher Parkes in Los Angeles

Walt Disney shares fell almost 5 per cent in early trading yesterday after the entertainment group warned of lower profits for the full year and reported income down 30 per cent in the second quarter to $269m.

Earnings met Wall Street forecasts of 13 cents a share after 18 cents last year, and Michael Eisner, chairman, said operating results were expected to improve. But he warned that the gains were unlikely to "overcome the declines in the first six months".

Promising greater efficiency and a review of the group's *cost structure, Mr Eisner* provided no details of where the cuts might come.

The company has already reduced film output, rationalised its studio structure and cut the animation workforce. It is trying to persuade independent television station owners to share the costs of programming for its struggling ABC broadcast network.

Mr Eisner also hinted at increased investments in Disney's internet operations, currently concentrated in 43 per cent-owned Infoseek, which operates its Go Network.

Including the acquisition costs associated with its Infoseek interests, group earnings were $226m, or 11 cents a share.

The worst news came from creative content, the core division that includes film and retailing. It reported operating income down 52 per cent to $163m.

Results from cinema releases improved, the company said, but US home video profits slipped. While the company re-released video versions of *Peter Pan* and *The Little Mermaid* in the US last year, tapes of *Mulan*, last summer's cinema animation success, attracted fewer buyers in the quarter to the end of March.

Sales of film- and TV-related merchandise fell short of expectations, helping reduce creative content revenues by 1 per cent to $2.4bn.

However, a 13 per cent *increase in revenues from* theme parks and resorts and an 8 per cent improvement from broadcasting helped offset this for a groupwide sales rise of 5 per cent to $5.5bn.

# Moscow takes steps to restructure $100m loan

By Arkady Ostrovsky in London and Joanne Whelan in Moscow

The city of Moscow is seeking to restructure $100m of a foreign currency loan, the first time the city has signalled it cannot meet its foreign debt obligations since the financial crisis last year.

Moscow is perceived to be the best credit risk in Russia, but it has now succumbed to the pressures of its foreign debt burden, which includes $1.1bn of international bonds.

The city – governed by Mayor Yuri Luzhkov, regarded as a leading candidate to succeed Boris Yeltsin as the country's president – said it would not be able to repay in June $100m of a $200m syndicated loan that it negotiated in 1997.

Moscow has continued to service its obligations even after the Russian government reneged on its domestic debt dues. But a default on city *debt would tarnish the mayor's reputation for preserving* economic health in the capital at a time of collapse in much of the rest of the country.

Mr Luzhkov pledged to continue to service the city's international bonds. But some syndicated loan holders said they would demand that international bond holders share the pain of any restructuring.

"Why should we restructure this syndicated loan if, on the other hand, Moscow will use this money to service its eurobonds," said one lender.

The Paris Club of official sovereign creditors and the International Monetary Fund indicated they would countenance differential treatment of sovereign Russian dollar bonds and sovereign loans. But Moscow would probably face resistance if it tried to differentiate between bonds and loans.

The three-year loan of $200m was arranged by Deutsche Bank, West LB and Société Générale and included a put option that gives investors the right to demand early repayment.

Moscow repaid $100m last *year and foreign creditors* have demanded early repayment of the remaining $100m, according to Iosif Ordzhonikidze, the deputy mayor of Moscow.

# BSkyB chief spurns $25m welcome from Microsoft

By Patrick Harverson, Christopher Price and Jo Johnson

A top British television executive has turned down a $25m offer to run Microsoft's global internet operation after receiving a counter offer to head a new internet and media investment vehicle for Rupert Murdoch's News Corporation.

Mark Booth, chief executive of British Sky Broadcasting, the UK satellite broadcasting service in which News Corp has a 40 per cent stake, has agreed to become chief executive of e-partners.

The company will invest $300m buying minority stakes in internet, interactive TV and wireless communication companies.

According to Mr Murdoch, he countered Microsoft's offer to Mr Booth of a $25m signing bonus with a "share in the *upside" of e-partners. This* suggests he will own a stake in the new business.

Microsoft would not comment on its reported offer to Mr Booth, who has run BSkyB for 17 months, overseeing the introduction of digital service and maintaining the group's dominance of the UK pay-TV market.

E-partners, which will have offices in London and San Francisco, represents a change of tack by Mr Murdoch, who recently said he was happy with the extent of News Corp's involvement in internet and other new media businesses. He has also said he believed internet stocks were overvalued.

However, Mr Murdoch said yesterday: "We see enormous opportunity for playing an even greater role in the new media industry, and with e-partners we think we have created a unique entrepreneurial investment structure best able to exploit those opportunities."

The company will operate *separately from News America* Digital Publishing, News Corp's US internet operation.

NADP is considering taking a $7m stake in the forthcoming public offering in TheStreet.com, an internet news group, with a view to developing business programmes for News Corp's Fox television channels.

BSkyB yesterday insisted Mr Booth's departure had nothing to do with the failure of the company to gain UK government approval for its £623m ($1bn) takeover bid for Manchester United, the soccer club. The bid was blocked earlier this month because the government felt it would have given the broadcaster an unfair advantage in UK soccer TV rights negotiations.

Industry observers believe Mr Booth had become disillusioned at BSkyB after being sidelined during the company's recent merger discussions with Canal Plus, the French broadcaster, which were led by Mr Murdoch.

His replacement will come *from outside BSkyB, which* rules out Mr Murdoch's daughter Elisabeth, who is managing director of Sky Networks.

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BARRY RILEY

# Bourses out of step

The single currency was one thing, but an integrated European stock market may be quite another. National bourses, it seems, still have plenty of life of their own.

Avinash Persaud of State Street Bank's financial markets group in London calculates that, whereas correlations of 12-month returns in euro-zone bond markets have been steadily rising to just about 1.00 (ie, perfect integration), the stock market correlation coefficient, now about 0.7, has declined slightly during the past few months of monetary union.

Last year there was a lot of talk of European domestic equity portfolios being rebalanced across borders, and of a switch from country-based to sector-oriented analysis and asset allocation.

So far in 1999, there has been a some disillusionment about the euro. There is a growing suspicion the "one-size-misfits-all" monetary policy may be driving the euro-zone economies apart rather than producing convergence.

The "eurobubble" effect *remains evident at the zone's* periphery. At the core, the six German economics institutes cut their gross domestic product growth forecast for 1999 from 2.3 per cent to 1.7 per cent yesterday. Equity prices are quite sensitive to expected growth rates.

Country v sector analysis is quite tricky to pin down precisely. National factors affect the persistence of different growth rates, as with Germany's notorious labour market inflexibility. There may also be important sector effects on whole economies, however, so that Italy, for instance, has been unexpectedly hit by its large exposure to the textiles industry. It may be almost a matter of semantics whether country effects are really stock-specific influences in another guise.

This year, within the euro-zone, the Finnish stock market has outperformed Portugal by 44 per cent, and Belgium has lagged France by 15 per cent. Clearly there remains an important degree of dispersion. The question is whether investors should still make country bets or whether they can expect to pick up these variations through sector exposures.

Sandy Rattray of Goldman Sachs addressed the issue by calculating "industry reconstructed returns". These sector-adjusted figures suggest there were underlying country effects in the first quarter, with Germany and Spain underperforming France by more than 10 per cent.

Possible explanations in Germany's case include economic gloom or, alternatively, the high rate of portfolio rebalancing observed among German institutions, where *spezialfonds* have increased their exposure to non-domestic equities from 34 to 56 per cent since the end of 1997. Spain, meanwhile, may have suffered from its corporate sector's links with South America. Mr Rattray also notes the recent outperformance of large capitalisation stocks, especially in Italy and Spain, which may have seen a particularly large positive impact from the rebalancing by core euro-zone investors.

A focus on big stocks (why buy 10 little stocks when one or two giants will meet country and sector exposure targets just as well?) has become a source of concern about mispricing. The role of narrow benchmarks in influencing stock selection is also a key factor, including the Eurotop 100 but especially the Dow Jones Stoxx 50.

Brokers are looking forward to the annual Stoxx review, implemented in September, which could see a significant degree of churning among the constituents.

EuroBench, the Brussels-based provider of European sector indices, is eager to step into the breach here because its indices are not capitalisation-weighted. But it is fighting an uphill battle.

However, EuroBench *finds* European stock market sectors are becoming more coherent. Having started a year ago with four sectors with acceptable correlations between stocks and added a fifth, it has now defined a batch of five more.

Sector enthusiasts seem bound to win the sector v country debate eventually. But stock market nationalism remains obstinately influential.

# NTT coup bolsters AT&T's Japanese link

By Michiyo Nakamoto in Tokyo and Richard Waters in New York

AT&T forged its second significant link in Japan in the space of three days, unveiling a co-operation agreement with NTT to manage the network needs of multinational corporations that operate in the country.

The latest deal marks the first time that NTT has agreed a tie-up with a large foreign competitor, and represents a coup for the big American telecommunications group, despite its limited nature.

The announcement follows closely on the heels of AT&T's Y220bn ($1.8bn) investment, along with British Telecommunications, for a joint 30 per cent stake in Japan Telecom.

Yesterday's news came as AT&T reported an acceleration in its revenue growth in the first quarter of this year, reflecting the company's moves to detach its fortunes from its slowly shrinking residential long-distance business. Along with further inroads into its costs, this enabled the company to beat Wall Street expectations with an increase in net income, despite one-off charges, of 36 per cent.

The news helped AT&T's share price to recover some of the losses it had suffered since late last week, when the carrier announced its $58bn bid for the cable television company MediaOne. The shares rose $⅞ to $53⅝.

The agreement with NTT was prompted by AT&T's $5bn purchase last year of IBM's global communications network business, which manages the communications needs of big companies that want to outsource the activity.

That operation relied on close partnership with several global carriers, among them NTT in Japan, to carry traffic for IBM's multinational customers.

After the IBM purchase, AT&T "needed a strong ally on the ground who understood the business, the culture and the solutions" of the former IBM network, said Rick Roscitt, president and CEO of AT&T Solutions.

That had led it to cement the relationship with NTT, a company that AT&T will be competing directly against in Japan once it merges its own operations in the country with those of British Telecom and Japan Telecom.

The American company said that, under the co-operation accord, a number of carriers, including Japan Telecom and NTT, would compete separately to carry the communications traffic for multinational customers. "We would anticipate that the solutions business would look to various sources of transport," Michael Armstrong, chairman, said.

Foreign carriers looking for a partner in Japan have all pursued NTT, which has a virtual monopoly of the local market in Japan. However, NTT has made it clear that it is not interested in wide-ranging tie-ups with other companies.

AT&T's latest earnings, meanwhile, reflected a 6.1 per cent increase in revenues to $13.6bn, excluding TCI, the cable television group it acquired in early March. That growth was supported by the business services unit, which grew revenues by 7.5 per cent to $6.2bn, offsetting a 3.4 per cent decline in consumer revenues, to $5.7bn.

The company also benefited from a 40 per cent rise in wireless revenue. Including net after-tax charges of $679m, AT&T reported net income of $1.076bn, or 38 cents a share, compared with $1.285bn, or 48 cents a share, a year before.

# Nortel lifted by purchase of Bay Networks

By Scott Morrison in Toronto

Better than expected sales to telecommunications carriers and the addition of its Bay unit enabled Nortel Networks to report a 26 per cent increase in first-quarter revenues.

That pushed net earnings from operations at the Canadian communications networking company up to US$222m, or 33 cents per share, against $140m, or 27 cents.

The results were in line with analysts' expectations. Revenues rose from $3.5bn to $4.4bn.

Including almost $700m in costs relating to the acquisition last year of Bay Networks, the US data networking group, Nortel incurred a net loss of $470m, or 71 cents. That compared with a net loss of $32m, or 6 cents.

The company revised its reporting methods by dividing results into two segments, rather than breaking down sales figures by product areas. Revenue for Nortel's carrier segment, which includes sales to telecoms operators, rose 15 per cent on strong sales of fibre optic equipment, switching products and equipment to link networks to local access lines.

That offset a 50 per cent drop in wireless sales in Brazil due to the country's devaluation and weak market. John Roth, chief executive, said Nortel was not losing market share in Brazil and he expected Brazilian wireless sales to increase later this year. Mr Roth said overall wireless sales would be in line with the market average this year of growth in the mid-teens.

Revenues from the enterprise segment, which encompasses sales to non-telecoms groups, were up 83 per cent, but much of that increase was due to additional sales provided by Bay. Mark Lucey, an analyst at Kearns Capital, said growth in the division would have been in the high single digits, if the additional revenue from Bay was excluded.

But he said the Bay acquisition appeared to be paying off for Nortel, given that its expansion into data networking has reinforced the company's position among carrier customers.

For example, Nortel technology that enables large telecoms carriers to overlay data networking capabilities on to their existing voice networks would not be as credible had Nortel not gained valuable data networking expertise through the Bay acquisition. Nortel said it expected to begin seeing revenues by late this year from the product, under evaluation by several carriers.

Nortel yesterday forecast that 1999 revenues would be about $22bn, against 1998's $17.6bn, with earnings per share growth at about 20 per cent. Mr Roth said a significant proportion of the increase would be due to Bay.

# Viacom could try internet sale

By Richard Waters


Sumner Redstone: hinted at enhanced internet value

Viacom would consider spinning off its internet activities to attract a higher stock market rating for the business, Sumner Redstone, the group's chairman, said yesterday.

While not confirming this was under active consideration, he said Viacom expected to announce "developments in the very near future" that would "validate and enhance the value" of its internet presence. He declined to give details.

The US entertainment group has relied on its main cable television brands, MTV and Nickelodeon, to spearhead its online push. A move to obtain a separate stock market listing for those activities would give the company a separate security that could be used to make acquisitions.

Viacom reported a 10 per cent jump in revenues for the first quarter of the year to $3bn. However, heavy investments made to rekindle growth at its Blockbuster video rental chain and to expand the UPN television network led to only a 1.5 per cent advance in operating earnings, to $277.5m.

The MTV television networks group continued to be the main engine. Its MTV, Nickelodeon and Showtime channels produced revenues of $664m, up 22 per cent. The contribution to overall earnings was even more significant, with the networks producing $202m, or 39 per cent, of Viacom's earnings before interest, taxes, depreciation and amortisation (ebitda). Blockbuster also grew strongly. Revenues for the business, which is preparing an initial public offering, rose by a fifth, to $1.11bn. However, ebitda fell by 13 per cent to $145m, while operating income slid 31 per cent to $50m.

Viacom's other major division, based around its Paramount movie studio, did less well than a year before, when its stake in the hit movie *Titanic* boosted performance. Thanks in part to the home video release in the latest quarter, though, revenues were down only 2 per cent, to $1.1bn, while ebitda fell 6 per cent to $162m.

Overall, Viacom's ebitda rose by 3 per cent to $475m. It reported after-tax profits of $33m, or 5 cents a share, compared with a loss of $14m, or 2 cents a share, the year before.

# Xerox, Kodak lean to digital

By Richard Waters

Xerox and Eastman Kodak each laid out plans yesterday that they said would take them further into the digital world and allow faster growth early next century.

Xerox unveiled an effort to boost its sales of services to customers rather than relying on sales of copiers and other hardware.

The initiative could lift revenues from services to 50 per cent of total revenues over the next 10 years, said Rick Thoman, former IBM chief financial officer recently named chief executive at Xerox. The move echoes the successes IBM has scored in the services business, an activity that has provided a big new source of revenue for the company and helped to lift sales of computer hardware.

Xerox has already notched up considerable successes with a new generation of digital copiers, which make it possible for the company to link its fortunes to the development of corporate information networks. Sales of digital machines accounted for half its revenues in the first quarter.

However, the shift to services could hit the company's earnings in the short term.

Kodak said it hoped to lift its revenue growth rate to as much as 12 per cent over the next five years as it pushed ahead with ideas to promote digital photography.

Kodak's first efforts to expand into digital imaging, based around the use of digital cameras, proved a false start as the cameras failed to find a big new market. Since last year it has refocused those efforts to pursue a wider range of ideas, many based on turning pictures taken on traditional film into digital formats.

Those digital plans could produce extra annual revenues of $3.5bn-$4bn within five years, Kodak said.

Adding to new sources of revenue and lifting the company's projected revenue growth overall to 8-12 per cent a year by 2004, was the potential to forge marketing alliances and joint ventures with other companies.

Wall Street has rediscovered some of its confidence in Kodak since the company produced a surprising upturn in the first quarter. The shares rose another $⅝ to $77¼ yesterday morning, a fifth higher than before its recent earnings announcement.

# Slovaks set for gas deal

By Kester Eddy in Bratislava and Edward Alden in Toronto

TransCanada International, a subsidiary of the Canadian gas transmission company TransCanada Pipelines, is expected to announce today that it has acquired a stake in the Slovakian gas storage company Nafta Gbely.

The deal will position TransCanada in the key transmission and marketing hub between the huge Russian natural gas fields and the largest European markets in France and Germany. The company would not confirm the size of the stake but said the acquisition would be done in conjunction with other partners.

The Slovakian company has storage capacity of 2.8bn cubic metres and the potential to double that figure.

TransCanada views it as a stepping stone for further expansion in central Europe.

Gary Davis, of TransCanada, would not confirm that an announcement was imminent. But he said TransCanada was interested in helping the Slovakian government to restructure the company, to take advantage of new opportunities in a deregulating European gas market.

For TransCanada the deal would offer "a very cost-efficient way to get involved in a critical marketing hub for Russian gas going to Europe", he added.

TransCanada similarly positioned itself in the key hub for North Sea gas going to Europe with its $275m purchase last year of Occidental Netherlands, the Dutch subsidiary of US-based Occidental Petroleum.

Nafta Gbely, which runs what is considered a highly profitable gas storage company with a loss-making oil extraction operation, was partially privatised in 1996, when a 45.9 per cent stake was sold for the knock-down price of Kcs500m ($11.9m). The new Slovakian government recently bought back 40.9 per cent of the privatised stake.

TransCanada owns the largest natural gas pipeline system in North America.

# The race to gather a digital arsenal

**Louise Kehoe and Christopher Price** on the scramble for communications groups

GEC's $4.2bn acquisition this week of Fore Systems, the US networking company, signals the start of the final lap in the race to create world-class suppliers of the next generation of digital communications equipment.

But the UK group is not alone in its efforts to assemble an arsenal of communications technologies. It is the latest in a wave of European telecommunications groups to enter the US market, which not only hosts the biggest and fastest growing equipment industry, but is also home to the most advanced technology companies.

Recent purchasers include Alcatel of France, which acquired Xylan Corp, a data-switching specialist, for $2bn and Siemens, the German telecoms equipment group, which made two smaller US acquisitions.

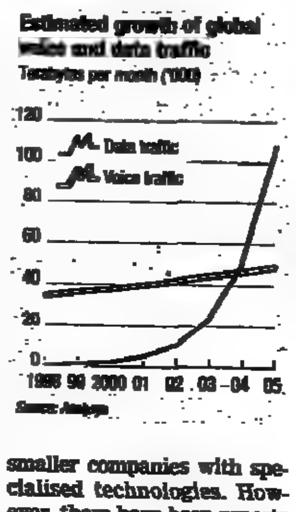
North American groups have also been involved. Two of the biggest deals in the industry have been the acquisition of Ascend Communications by Lucent, the AT&T spin-off, for $19bn, and the $9bn purchase of Bay Networks by Nortel of Canada.

These and other companies still have a strong appetite for acquisitions. Yet with GEC's purchase of Fore, there are only two substantial groups left that are considered potential takeover targets – Newbridge Networks of Canada and Cabletron Systems of the US.

Newbridge, which was trading close to its 12-month high of $39⅞ yesterday, giving it a market value of almost $7bn, is widely considered to be the more vulnerable. The company is a leader in Asynchronous Transfer Mode technology which can be used to create high-speed networks capable of carrying multimedia signals.

Cabletron, a leader in computer networking products, has itself been picking up smaller companies with specialised technologies. However, there have been reports that it has hired Merrill Lynch, the investment bank, to investigate strategic options, including the possibility of a sale. Yesterday Cabletron was trading at $9, off substantially from its 12-month high of $15⅛.

Estimated growth of global voice and data traffic



Source: Analysys

Driving the merger and acquisition activity in the sector is what might best be called the "Cisco effect".

Cisco Systems, the world leader in internet-style networking equipment, is moving rapidly into markets that were previously the territory of traditional telecoms equipment suppliers.

The Silicon Valley company has also set the acquisition trend by regularly snapping up smaller companies – often start-ups that have been formed with the predetermined goal of being acquired by the networking equipment giant.

Cisco's growth, and that of the entire industry, reflects the transformation of telecoms networks into data networks with the rapid growth of internet traffic. Already, US telephone networks carry more data signals than voice calls and the trend is spreading rapidly throughout the rest of the world.

Thus, building networks optimised for voice calls is no longer economically viable. Instead, the rush is to create internet protocol networks, which are capable of carrying both voice and data more efficiently than traditional switched networks.

For GEC, the purchase is the latest in a string of deals since January, when the UK company – which is unrelated to GE of the US – started to transform itself into a fully-fledged telecoms network equipment supplier.

Last month, it paid more than $2bn for Reltec, a provider of networking equipment for the telecoms "last mile" to the home.

GEC believes the two, linked with its Marconi call software expertise, give it a compelling business solution for internet service providers and telecoms operators.

GEC is not just buying technology. It is also buying Fore's and Reltec's customers, to whom it hopes to sell additional telecoms services. For many analysts, this is as important as having the technology spread.

"GEC is in a better position now, but they were not a household name and buying Fore does not make them a household name. There is a branding game going on in this market," says Maribel Lopez, analyst with Forrester, the industry research group.

## NEWS DIGEST

### HOTELS

## Park Place to pay $3bn for Caesar's World

Park Place Entertainment, the hotel and gambling company, is acquiring Caesar's World resorts for $3bn cash, ending weeks of speculation that a deal was in the pipeline. Starwood Hotels & Resorts is selling the famed Caesars hotels and casinos in Las Vegas, Atlantic City and other gambling cities, but will retain its Desert Inn golf resort and casino in Las Vegas.

Barry Sternlicht, Starwood chairman, said his company would focus on its hotel operations, describing the casino business as volatile and needing big capital investment to be competitive. He said Starwood would use proceeds to pay down debt, which in turn should lower its borrowing costs. Shares of Park Place jumped about 10 per cent to $10.125 in early trading. Starwood shares fell $1 to $34.
**Reuters, New York**

### RETAILING

## Toys R Us shares surge

Shares of US retailer Toys R Us surged 9 per cent to $23⅞ at midday after the company announced a shake-up in its approach to internet sales. It said it had created a separate subsidiary for its internet operations, toysrus.com, with an initial investment of $50m. A new chief executive will be appointed to run the e-commerce operations. Toys R Us plans to relaunch its website in the second quarter in partnership with Benchmark Capital, a Californian venture capital firm, which will provide strategic and financial support.

The retailer, which reported flat sales of $4.9bn and a net loss of $13m for last year, faces stiff competitive pressures in both e-commerce and traditional retailing. Discount retailers such as Wal-Mart and Target continue to eat at its market share. A website launched last year proved unsuccessful with consumers, with rising stars of e-commerce like eToys offering consumers better price and service options.
**John Labate, New York**

### CHEMICALS

## DuPont in sales alliance

Shares in DuPont rose $1⅞ to $68⅛ yesterday morning, after the chemicals and life sciences group said its 1999 performance could be slightly better than expected. It reported net income, including one-off charges, of $663m and earnings per share of 58 cents. However, excluding the charge, earnings of 66 cents beat analysts' estimates of 60 cents.

DuPont also announced a sales alliance with McKesson HBOC, the world's largest pharmaceutical supply management and healthcare information company. Under the alliance, a salesforce recruited, hired and trained by McKesson will help DuPont's salesforce promote products for the treatment of cardiovascular and Parkinson's disease.

Group sales rose 2 per cent to $6.3bn. Volumes, including acquisitions, were up 4 per cent, but worldwide average prices fell 2 per cent, including currency effects. Excluding acquisitions, worldwide volumes were down about 2 per cent. **Tracy Corrigan, New York**

### AMERICAN FOOTBALL

## $800m Redskins sale a record

The Washington Redskins, professional American football team, are to be sold for a record $800m to a consortium led by Daniel Snyder, a Maryland-based marketing and advertising executive. The estate of Jack Kent Cooke, the late owner of the team, will accept an offer put forward by Mr Snyder.

The bid is a record for any US professional sports franchise and far exceeds the previous record for a football team – the $530m paid last year for the Cleveland Browns. The deal still has to be approved by at least 24 of the 31 team owners in the National Football League, the sport's governing body.
**Mark Suzman, Washington**

### STEEL

## Ahmsa seeks partner

The newly appointed head of Ahmsa, which this week announced it had suspended debt payments, said yesterday the company was in talks with five potential partners, including three from Mexico, and that it expected a merger agreement by May. José Domene, who on Monday took over at Mexico's largest steel producer, denied speculation that the three interested Mexican steel companies would form a consortium to take it over. They are thought to be Hylsamex, Imsa and Villacero. Two unspecified European companies are also said to be interested.

One potential partner is doing due diligence. "We should be finishing the first period of the merger by the end of May," Mr Domene said. Ahmsa has been forced to pursue a strategic partner due to its $1.8bn debt and low global steel prices.
**Henry Tricks, Mexico City**

هكذا من الأصل

Park Place to pay $3bn for Caesar's World

digital arsenal

WE LOVE TECHNOLOGY. It's new and it's shiny and it inspires a certain awe, like the Great Pyramid of Cheops or a tiny new human being. Technology is good at the heavy lifting. People are good at the heavy thinking. Bits and bytes and ones and zeroes fly around the planet, but only at our discretion. The computer has a role model, and it is us. Computers are plastic and metal and sand. People are brilliance and discernment and vision. Admire machines. Worship their inventors.

HUMAN ACHIEVEMENT

Merrill Lynch

ML.COM

# President to take 33% of Tingyi noodles

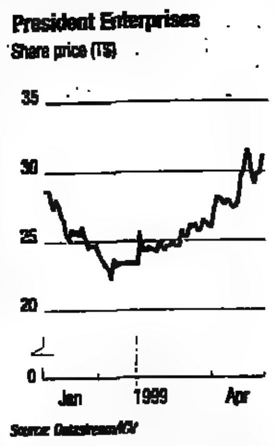
By Mure Dickie in Taipei

President Enterprises, the leading Taiwanese food group, plans to take a 33 per cent stake in Hong Kong-listed instant noodles producer Tingyi, in a deal that would create an alliance able to dominate the world's most populous noodle market, mainland China.

The deal would also end cut-throat competition between President Enterprises and Tingyi, which is Taiwanese controlled but based in mainland China. The two have been waging an expensive battle for Chinese market share in noodles, soft drinks and soy sauce.

Tingyi's instant noodles, marketed under the name Kang Shifu, or "Master Kang", already account for an estimated third of the Chinese market, with President's brand not far behind.

"They are number one, and we are number two," President Enterprises said.




"The deal is not settled yet, but both sides share the same desire."

Analysts said the deal, if realised, would ease concerns about cash shortages at Tingyi and could help President to achieve its first profit in China in nearly nine years in the always appetising but often indigestible mainland market.

Tingyi, which has made expensive advances into the mainland soft drinks market in recent years, had been conducting talks with President for months even as it discussed selling a one-third stake to Campbell, the US soup giant.

The noodle maker said yesterday the talks with Campbell had failed, but gave no details.

Taiwanese companies have used their understanding of Chinese tastes to tap a vast appetite for instant noodles and snacks among China's increasingly time-conscious urban dwellers and among passengers on trains that can take days to traverse the huge nation.

However, Michael Lee, analyst at MasterLink Securities in Taipei, said marketing acumen alone had been unable to keep Tingyi's finances healthy, with President expected to supply a large injection of operating capital. "The financial situation of Tingyi should be much better after this deal," Mr Lee said.

BANKING NEWBRIDGE CAPITAL AIMS TO MEET THIS WEEK'S DEADLINE FOR LANDMARK TAKEOVER

# US fund certain on Korea First deal

By John Burton in Seoul

Newbridge Capital, the US investment fund, yesterday said it was confident it can reach a final agreement on its takeover of Korea First Bank by a deadline set for the end of the week.

The landmark deal for the first foreign takeover of a South Korean bank has been bedeviled by disputes over the valuation of the bank's assets and other terms of the memorandum of understanding signed in December, according to people close to the negotiations.

"We remain confident all major issues will be agreed upon according to the original schedule. We have not discussed any other schedule," said Weijian Shan, Newbridge managing director.

In a press conference seen as part of Newbridge's efforts to gain Korean public support, he said the deadline could be extended as stipulated in the memorandum if both parties agree to it. Newbridge would lose its exclusive right to buy Korea First if a deal is not concluded by this week.

The deal for Newbridge to buy a 51 per cent stake in the nationalised bank has been criticised by the Korean media and some government officials as being too generous to the US investment fund since the Korean economy is recovering.

The Korean negotiating stance has recently hardened, with some terms of the memorandum being questioned, including the government's obligation to buy bank loans that go sour over the next two years. This reflects government worries that it is close to exhausting the Won64,000bn ($53.9bn) allocated to rescuing the troubled banking system.

Mr Shan denied the deal was in danger of collapsing. "We have far more common ground than differences. We are focusing on these common grounds," he said.

Analysts warn the deal's collapse would raise doubts about Seoul's commitment to financial reforms demanded by the International Monetary Fund as part of its $58bn rescue package. The IMF ordered the sale of Korea First and SeoulBank, the two weakest big banks, to foreign investors.

The Korea First sale helped persuade international credit agencies to raise Korea's sovereign rating to investment grade for the first time since the financial crisis in 1997 because of apparent progress in bank restructuring.

Analysts believe Korea First would still find a buyer if the Newbridge deal collapsed. "A lot of serious investors want to bid for it," said Richard Samuelson, research head at Warburg Dillon Reed in Seoul.

# Credit Suisse to start own inquiry in Japan

By Gillian Tett in Tokyo

Credit Suisse has hired western lawyers to conduct an internal investigation into whether some of its Tokyo employees have obstructed Japanese regulators in recent months.

The move comes as the Financial Supervisory Agency, Japan's banking regulator, presses ahead with the inspection of four of Credit Suisse's Tokyo subsidiaries, which started in mid-January.

The move indicates the seriousness that Credit Suisse attaches to the FSA investigation.

The FSA has not publicly commented on the inspection. However, it is understood to be exploring two main questions. One is whether the Credit Suisse group has helped Japanese clients, such as Long-Term Credit Bank and Nippon Credit Bank, to conceal balance sheet losses in recent years.

The FSA is also examining the conduct of Credit Suisse during the early weeks of the inspection. In particular, it is exploring whether Credit Suisse employees broke local banking laws by deliberately obstructing the regulators in their search for documents.

Credit Suisse has not commented in public on either of these issues, and the FSA has not produced any public proof of wrongdoing. However, in the worst case, the inspection could result in a temporary suspension of part of the Credit Suisse licence in Japan.

The matter is raising tension between Credit Suisse's Tokyo and London offices. Earlier this month Rainer Gut, global chairman of Credit Suisse, travelled to Tokyo to meet the FSA. However, the head of the FSA refused to meet him, saying this would imply the FSA was bowing to political pressure.

The Swiss government has expressed its concern to the Japanese government that the case be handled in a "fair" manner. However, the Swiss embassy in Japan denies it is seeking any "special treatment" for the bank.

The conclusion from the FSA inspection is unlikely to emerge until Credit Suisse lawyers have completed their internal report. The FSA has told Credit Suisse it will take this into consideration, but not accept it as a bargaining chip.

The case is stirring considerable debate in the western banking world in Tokyo, not least because Japanese regulators have indicated they are likely to inspect other western banks soon.

Some western lawyers have accused the Japanese government of using Credit Suisse as a scapegoat for a broader political backlash against foreign banks, and question whether the FSA will be able to prove any wrongdoing at the bank.

Others argue that the FSA is trying to improve standards in Japan, after ignoring activities of western banks in recent years.

The inspection at Credit Suisse was triggered by a separate FSA inquiry into the 19 large banks last year, including a probe into NCB and LTCB, which were nationalised last autumn.

This showed that NCB and LTCB had engaged in manipulation of their balance sheets, partly by using complex financial instruments and accounting techniques. The inquiry also produced information on counterparties to these trades, including western banks.

# Standard Chartered set for 70% Thai bank stake

By George Graham in London and William Barnes in Bangkok

Standard Chartered, the international bank headquartered in London, is expected to announce today the acquisition of a 70 per cent stake in Thailand's Nakornthon Bank.

Standard Chartered is expected to make an initial payment of about Bt5.5bn ($148m) for the stake, with the possibility of additional payments later.

Thailand's Financial Institutions Development Fund, the central bank's bail-out arm, is also expected to put in about Bt1.5bn to acquire an equity stake, but will also inject an estimated Bt13bn in the form of a soft loan.

Some analysts believe those who bought into the Thai banking sector last year, such as Singapore's DBS Bank, which took just over 50 per cent of Thai Danu Bank, may have paid too much. According to some estimates, it will take more than $30bn to recapitalise the entire Thai banking industry.

But Chatumonkol Sonakul, governor of the Bank of Thailand, claimed this week that non-performing loans in private sector banks had now peaked, after they shrank marginally from 42 per cent to 41.9 per cent of lending.

"This is a good time to buy. The economy has bottomed out and any surprises now will be on the upside," said Andrew Maule, banking analyst at ABN Amro Securities.

Nakornthon is Standard Chartered's second deal in a week, following the $56m purchase of a controlling stake in Indonesia's Bank Bali. The bank has set out to strengthen its Asian network – the heart of its business – with selected acquisitions.

A memorandum of understanding is expected to be signed in Bangkok today, with completion likely in June. Standard Chartered is believed to have been preferred by the Thai authorities to United Overseas Bank of Singapore, the main rival bidder.

Nakornthon, founded in 1933, is Thailand's second oldest bank, with 68 branches heavily concentrated in the Bangkok area. Standard Chartered has only one branch in Thailand.

Like all Thai banks, Nakornthon has seen its loan book deteriorate as the country's economy has suffered over the last two years. Without an outside injection of capital, its capital adequacy ratios would have fallen below the levels required by regulators.

Nakornthon's chairman, Vorawee Wangiee, has said the family realised soon after the crisis hit Thailand that it would have to give up control.

"We knew that it would be impossible to finance the bank on our own, and we knew that any partner would want absolute control."

## NEWS DIGEST

### PHILIPPINES

### JG Summit buys into Singapore property group

Salim Group, the Indonesian conglomerate, has sold a 23 per cent stake in a Singapore property company to JG Summit, a diversified Philippine business group, for S$310.9m (US$183m). The move follows the breakdown of Salim's plans to sell the stake in United Industrial, which owns prime office property in the city state and holds a 51 per stake in property developer Singapore Land, to HKR International of Hong Kong.

The move is one of the biggest overseas expansions by JG Summit, the holding company of John Gokongwei, the Philippine tycoon. The interests of the JG Summit group include property, telecommunications, the airline industry and petrochemicals. The group recently sold Apo Cement, a Philippine cement manufacturer, for $400m to Cemex and is planning to sell a stake in PCI Bank, a leading Philippine commercial bank. **Tony Tassell, Manila**

### FOOD

### Indofood sale falls through

Indofood, Indonesia's leading food maker, announced a return to the black with record profits for 1998, but said a deal to sell the majority of the company had fallen through.

Indofood, the world's largest maker of instant noodles, posted net profits of Rp150bn ($17.5m) against a loss of Rp1,200bn the previous year. However a failure to win an agreement from creditors scuppered a plan to sell 60 per cent of the company to Nissin Food Products of Japan and Hong Kong's First Pacific, which like Indofood is part of Indonesia's Salim Group.

Indofood said the cancellation of the sale of a 30 per cent stake to Nissin would not damage performance. The group said it was spinning off its Bogasari division into "four separate business entities based on specific operations to be initially wholly-owned by Indofood".

"After the spin-off, Indofood will invite strategic partners for each legal entity and expects to complete these transactions by the second half of the year," it said.

Earlier, First Pacific, which had planned to buy 60 per cent of Indofood from Salim, said it would proceed alone with a plan to buy at least 30 per cent. The deal with Nissin fell through because of Indofood's inability to win consent from creditors for the plan. **Reuters, Jakarta**

### THAILAND

### Power workers oppose sell-off

Workers of the Electricity Generating Authority of Thailand have since last week been protesting about the sale of the country's largest power station, being built at Ratchaburi. "Once the power plant is sold to foreigners Thais will become slaves," said Somsak Kosaisuk, president of the federation of state enterprise workers.

EGAT's board also seems to be trying to throw obstacles in the way of the Ratchburi privatisation. Last week the board said it would explore alternative ways of raising finance and that it would not appoint a privatisation adviser until the workers were placated.

EGAT workers were joined by a crowd protesting against the IMF privatisation programmes. Some 5,000 waved banners with such messages as "Don't make us IMF slaves" and "Thailand is not for sale".

Thousands of state enterprise workers chanting anti-IMF and anti-foreign slogans gathered in Bangkok yesterday to protest against the government's privatisation programme.

The government has promised the IMF that a radical privatisation programme will free up most state enterprises starting with the two state telecommunications organisations, some energy companies and Thai International.

Technocrats in government agree with the IMF that these enterprises are profligate and inefficient. But state employee unions are well-organised and suspicious. Many experts consider them as much an obstacle to privatisation as cautious buyers. **William Barnes, Bangkok**

# Taiwanese lenders look to move up a gear

Merger of grassroots finance groups is an overdue step in an under-regulated sector, writes **Mure Dickie**

The decor of the Sixth Credit Cooperative of Taichung certainly reflects its role as a provider of grass-roots finance. The Taiwanese lender's office entrance is tucked down an alley, its carpets are cheap and its paintwork fading.

Despite its dowdy trappings, however, Sixth Credit has big plans of becoming a bank – plans it aims to realise through a pioneer merger with a fellow local lender from southern Taiwan.

The merger, the first between two such credit cooperatives, is a step forward in efforts to clean up Taiwan's old-fashioned grass-roots financial system. It also underlines the need for stronger action to reform a sector that is a minefield of hidden debts and political interests.

While credit cooperatives account for under 7 per cent of total deposits at financial institutions and just 5 per cent of loans, they, together with Farmers Associations, are seen as one of the weakest links in the island's credit chain. "A further clear up of this sector seems necessary in order to bring more stability to the Taiwanese financial markets," argues Taiwan Ratings, a ratings agency part-owned by Standard & Poor's.

The ratio of problem loans to total lending by credit cooperatives is officially 6.7 per cent, but analysts say it could really be as high as 15 per cent – an extraordinary level given Taiwan's powerful economic growth and relatively conservative banking culture.

Government efforts to reform the cooperatives, which are owned by members and restricted to basic lending and deposit-taking services, are focused on absorbing them into the already over-crowded commercial bank sector. A handful of the biggest have been allowed to upgrade on their own, while sickly counterparts have been taken over by banks hoping to take advantage of their local branch networks.

Lending ambition: credit cooperatives plan to become banks AP

Sixth Credit's merger with the First Credit Cooperative of Pingtung will allow two small but relatively healthy lenders to achieve the size required for conversion to a commercial bank, and the Ministry of Finance hopes the merger will prove a model for others.

Analysts welcome the move but warn officials must also deal with the remaining 50 or so cooperatives, many of which are in uncertain health. "I think Taiwan should get rid of this kind of credit union," says Frank Su, banking analyst at Jardine Fleming Investment Management, arguing that rising affluence and the development of commercial banking has made them superfluous.

Government reluctance to allow financial sector bankruptcies means there could be problems ahead as weak lenders are pushed into mergers with banks. Pan Asia Bank came close to collapse last year partly as a result of debts it unwittingly assumed when it took over a credit cooperative. The ruling party rescued the bank, but its near failure sent ripples of concern through the financial sector.

Sixth Credit says it has no such hidden debt problems, although Lin Mao-sen, assistant manager, admits the merger is prompted by the realisation that credit cooperatives have little future.

Mr Lin, whose bosses already command Mercedes limousines worthy of banking heavyweights, says ending Sixth Credit's six decades of community service was an easy decision. "If your business is too limited and competition is too fierce you have to find another way," he says.

"Lots of other cooperatives want to learn from our example."

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# Norway names new Statoil board members

By Valeria Sköld in Oslo

Norway's oil and energy ministry yesterday appointed seven new board members to Statoil, the state-owned oil company, while signalling a possible slowdown in privatising the country's largest enterprise.

The ministry named Ole Lund, chairman of the Oslo stock exchange and a supreme court attorney, as chairman, replacing Kjell Kran.

The nominations came after the government decided last week not to reinstate most of the board due to a NKr17bn ($2.18bn) cost overrun on the Aasgard oil and gas field.

The board upheaval prompted Harald Norvik, Statoil chief executive, to offer his resignation, along with Terje Vareberg, deputy chief executive. Mr Norvik's exodus prompted speculation that the dismissals, by the minority centre-led government, were politically motivated.

Political analysts said the government's survival could have been threatened by any fall-out from the cost overruns.

In addition the board, most of which was made up of Labour party loyalists traditionally in favour of privatisation – was increasingly out of step with a government that is lukewarm on state sell-offs.

Anne Enger Lahnstein, acting oil and energy minister, denied her actions were politically motivated. However, she said the government was not prepared to rush the question of partially privatising Statoil and would address the issue in a white paper to parliament next spring.

"It would be meaningless not to take the time to evaluate all the sides in this political situation," Ms Lahnstein said. "It is not a question that can be resolved within a hectic final spurt during the [government's] budget handling [in May]."

Separately, Statoil reported a fall in first-quarter profit from NKr1.2bn to NKr700m due to lower oil prices, shrinking oil production and a loss in its petrochemicals business.

Mr Norvik said the results were acceptable considering the difficult market conditions and forecast an improvement in the second quarter due to production cuts adopted by the Organisation of Petroleum Exporting Countries.

Pre-tax profits in exploration and production fell from NKr3.329bn to NKr2.105bn on lower Norwegian oil production, despite a rise in the daily sales of entitlement gas from 25.2m cu m to 25.7m. Lower margins for both petrochemical products and methanol wiped out a NKr243m profit from a year earlier down to a NKr56m loss.

# Mobilcom plans to add fibre to low-cost diet

The internet is central to group's growth target, write **Ralph Atkins and Alan Cane**

Gerhard Schmid, *enfant terrible* of German telecommunications, is not going to be left out of the wave of consolidation affecting Europe's biggest telecommunications market.

After setting the trend for cuts of up to 70 per cent in long distance telephone rates, his Schleswig-based Mobilcom group is looking to the internet to maintain its explosive growth.

And he is prepared to spend between DM300m and DM500m (€153m-€256m, $163-$271m) acquiring a badly-needed fibre optical network.

Mobilcom's economy-rate internet service already has a 4 per cent market share after four months, Mr Schmid says. "It is a combination of price and a simple product. E-mail, home page and web address all for no extra charge," he says in an interview.

"We had 40,000 subscribers in 10 days after starting the one-tariff services in February and we had to close the service because there was too much traffic."

The push into the internet and network infrastructure marks a turnaround for Mr Schmid. A year ago he virtually ridiculed Germany's large power utilities – Veba, RWE and Viag – for investing heavily in building telecommunications networks.

He had spotted the enormous arbitrage opportunities in simply renting lines from Deutsche Telekom at the country's low interconnection rate and offering cut-price telephony to a mass market.

Companies such as Mobilcom, which is listed on the Neuer Markt, the stock exchange for fast-growing innovative companies, benefit significantly from Germany's "call-by-call" system. This allows customers to chose a different operator for each call just by dialling a different five-digit code before the usual telephone number. The billing is organised by Deutsche Telekom.

As a result, Mobilcom's pre-tax profits rose from DM29m in 1997 to DM250m last year on top of a fourfold increase in turnover to DM1.47bn.

But by the end of last year Deutsche Telekom, the partially-privatised telecoms giant, had cut its prices aggressively in response. Germany's dominant operator has also benefited from regulations setting relatively high costs for access to the local loop, the final connection into customers' homes and offices.

Now, Mr Schmid acknowledges, having your own infrastructure does have its attractions after all.

Before Easter, Mobilcom was poised to buy the fixed line business of o.tel.o, the telecoms venture owned by the Veba and RWE energy conglomerates. But then Mobilcom's much larger rival Mannesmann swooped with a better offer, leaving Mr Schmid looking elsewhere.

"Our strategy," he says, "is to be cost leader because cost has a very large influence on market share." Voice traffic over fixed lines is no longer a rapidly-expanding business.

He added: "The fastest growing telecoms market besides cellular is the internet and data. We currently have small pipes (main transmission lines) connecting our points of presence.

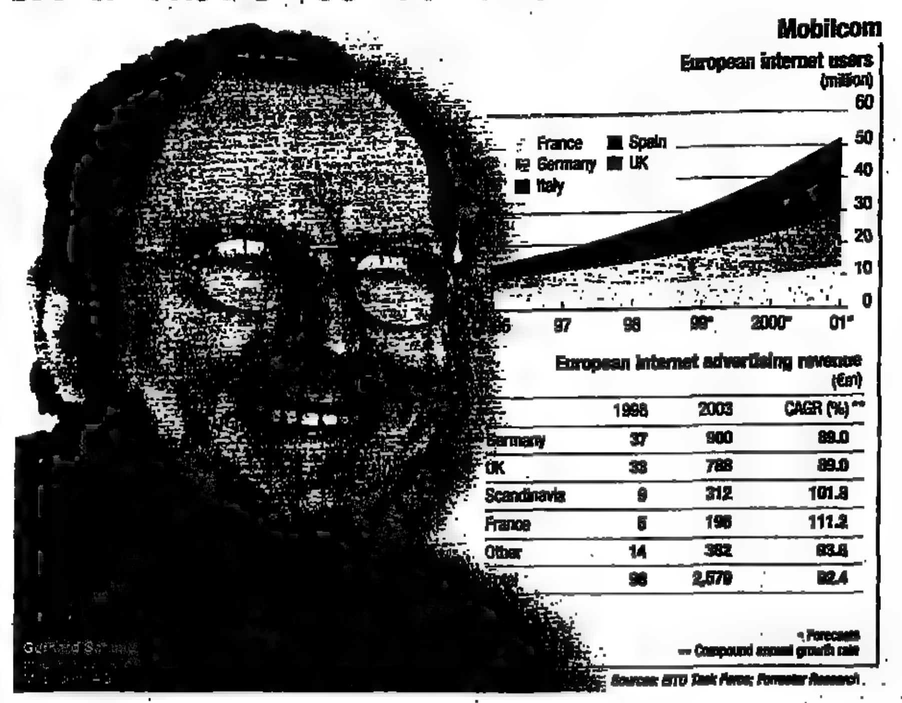
"In the next two years, we are going to need larger pipes. It is not important to own the capacity, it is important to have it available. We are prepared to invest or rent."

Can his move into the internet re-establish the Mobilcom magic generated by his past success?

The group has a strong brand recognition and a reputation as an audacious operator. Its share price soared in the 12 months to January 1999 but has since fallen back.

Peaking at €450 at the end of January they were languishing at about €200 at the end of last week.

Furthermore, it now faces real competition in its chosen sectors. After following Mobilcom down on voice call prices, Deutsche Telekom and Mannesmann, Germany's number two operator, are also slashing internet costs. Mr Schmid may find it less easy to perform the low cost trick second time around.




European internet advertising revenue ($m)

| | 1998 | 2003 | CAGR (%)** |
|---|---|---|---|
| Germany | 37 | 900 | 89.0 |
| UK | 33 | 788 | 89.0 |
| Scandinavia | 9 | 312 | 101.8 |
| France | 5 | 198 | 111.2 |
| Other | 14 | 382 | 93.8 |
| | 98 | 2,579 | 92.4 |

* Forecasts ** Compound annual growth rate

Sources: [illegible] Forrester Research

# Electrolux forecasts downturn in Europe

By Tim Burt in Stockholm

Electrolux, the world's largest household appliances group, yesterday damped expectations of buoyant consumer demand in western Europe by warning of flat or shrinking markets across the region.

The company, reporting a 29.5 per cent increase in first-quarter profits, contradicted recent upbeat forecasts from US rivals Whirlpool and Maytag by claiming the outlook in Europe was unlikely to improve this year.

Although Electrolux saw pre-tax profits rise to SKr1.39bn ($166m), from SKr1.08bn in the first three months of the year, it said total demand for household appliances had declined by 5 per cent in Germany and by 7-8 per cent in the UK – two of its largest markets.

"We thought the European and North American markets would be flat this year," said Michael Treschow, chief executive. "Now we think Europe will be worse and North America a little better than expected."

Together Europe and North America account for 85 per cent of Electrolux sales, which rose modestly from SKr28.5bn to SKr29.1bn in the first quarter.

Mr Treschow questioned the market optimism of Whirlpool, Electrolux's largest competitor, adding: "They are not taking market share from us, and we see a greater risk of a downturn than a rise in [European] sales."

Electrolux was also adversely affected by a sharp decline in deliveries to Russia and continued weakness in emerging markets, dominated by Brazil.

That was offset by strong growth in North America.

Overall, operating profits rose 20.3 per cent from SKr1.38bn to SKr1.66bn even though prices remained under pressure in most markets.

Mr Treschow reiterated that the group was on track to lift operating margins to 6.5-7 per cent from less than 4 per cent two years ago, when Electrolux launched a SKr2.5bn restructuring involving 12,000 jobs losses and 25 plant closures.

Earnings per share rose from SKr1.85 to SKr2.90. Electrolux B shares were unchanged at SKr170.

# Murdoch buys into Stream

By Paul Betts in Milan

Rupert Murdoch, the Australian media tycoon, yesterday launched a new attempt to penetrate Italy's fledgling pay television market by agreeing to acquire a 35 per cent stake in Stream, Telecom Italia's lossmaking multimedia and pay-TV subsidiary.

The privatised Italian telecommunications group, now seeking to merge with Deutsche Telekom and fighting off a hostile bid from Olivetti, said it had signed a memorandum of understanding to sell 65 per cent of Stream to a group of Italian investors as well as Mr Murdoch's News Corporation.

Under the preliminary agreement to be finalised in the middle of next month, News Corp would acquire 35 per cent of Stream but also appoint the company's new chief executive and managing director giving it operational control of the pay-TV venture.

The other partners include the Italian Cecchi Gori commercial television and film production group and SDS, a company recently set up to control and sell the TV rights of four leading Italian soccer clubs. The four clubs are Lazio, the leader in the Italian premier division, Fiorentina, Roma and Parma.

Cecchi Gori is taking an 18 per cent stake while the soccer rights company will have 12 per cent. Telecom Italia will maintain 35 per cent of Stream and appoint the chairman.

The price of the deal was not disclosed. It is expected to be based on the future recapitalisation of the company which Telecom Italia yesterday said would need to invest L2,000bn (€1.03bn, $US1.09bn) to develop Italy's second digital pay-TV platform in competition with Telepiù, the pay-TV network controlled by Canal Plus of France.

Telecom Italia had considered transferring to Canal Plus its 100,000 satellite pay-TV subscribers for about $150m. However, the telecommunications group preferred the News Corp-Cecchi Gori-SDS option because it offered it the opportunity to recoup more of the start up and investment costs already made in Stream.

The decision to dispose of Stream was one of the first decisions taken by Franco Bernabe when he took over as Telecom Italia's chief executive last November. The original plan was to sell 80 per cent of the pay-TV venture to News Corp.

However, the deal collapsed because Mr Murdoch also wanted to bid for the pay-TV rights for all Italian league football matches in the top two divisions.

# Ares-Serono up

By William Hall in Zurich

Shares of Ares-Serono, a Swiss biotech stock, jumped over 7 per cent yesterday after the company reported a near doubling in first quarter operating income, to $56.5m, and sales of Rebif, a new multiple sclerosis drug, more than quadrupled.

Ernesto Bertarelli, Ares-Serono's chief executive, said that first quarter operating income had been boosted by increased royalty income and a one-time payment from Immunex Corporation following a settlement of a patent dispute.

Sales grew 23 per cent in local currency terms, to $242m, and biotech drugs now account for 67 per cent of sales, compared with 43 per cent a year ago.

Mr Bertarelli, 34-year-old son of the company's founder, said profit margins increased significantly despite higher spending on marketing and research and development.

In 1998, net profit margins grew from 10.2 per cent to 12.3 per cent and he expects a 14 per cent margin on sales of at least $1bn in the current year.

Ares-Serono was one of the top-performing biotech stocks, but has underperformed the Swiss market because of pedestrian sales growth and concerns about the outlook for Rebif.

In early March its shares fell more than 10 per cent, after the US Food and Drug Administration refused to allow Rebif to be marketed in the US until the expiry of orphan drug status of two competing drugs – Biogen's Avonex and Schering's Betaseron.

Sales of Rebif rose from $5.2m to $24.8m in the first quarter and sales of Serostim, a new Aids drug, more than doubled to $27.3m.

## NEWS DIGEST

### BANKING TAKEOVER BATTLE

## BNP challenges rivals' view on revenue losses

Banque Nationale de Paris yesterday described as "totally exaggerated" estimates of domestic French revenue losses if it took over rivals Société Générale and Paribas.

Baudouin Prot, BNP chief operating officer, said the combined retail networks would lose a maximum of €30m ($31.8m) in annual revenues, not the €230m figure estimated last week by Daniel Bouton and André Lévy-Lang, chairmen of SG and Paribas, which hope to conclude their own friendly merger.

The revenue losses would be limited to customers among small and medium-sized enterprises, Mr Prot said. Overlaps in other sectors were insignificant. He gave more details of €560m in cost cuts BNP hopes to achieve by 2004 by putting its network together with SG's branches.

Mr Prot also played down the prospect that post-merger management departures from SG would be large and serious, considering the level of hostility in the bid. "There is work and room for everyone," he said. BNP left open an offer of talks to the other banks to show that it planned "association, not dominance". **Clay Harris**

### PORTUGAL

## BCP posts 31.8% advance

Banco Comercial Português, Portugal's biggest listed banking group, lifted net consolidated income 31.8 per cent in the first quarter to Es12bn (€60m, $63.6m), up from Es9.1bn in the same period last year. Earnings per share rose only 4 per cent to Es60.6 because of the diluting effect of a share capital increase in March 1998.

Jorge Jardim Gonçalves, chairman, said strong demand for financial products, particularly mortgage and consumer loans, helped offset a drop in foreign exchange business resulting from Portugal's participation in the launch of the single European currency. Total lending rose 37.7 per cent to Es3,873bn. Total deposits were up 5.8 per cent to Es6,211bn and assets increased 12.2 per cent to Es6,636bn. **Peter Wise, Lisbon**

### ACCOUNTANCY

## Warburg team joins Andersen

Arthur Andersen, the international accounting team, has hired a six-strong corporate finance team from Warburg Dillon Read in a move which will make it number three in Switzerland's lucrative market for corporate finance and advisory work.

Ronald Sauser, who led the sale of Tornos Bechtler to Doughty Hanson, will head the new Zurich-based team which joins Arthur Andersen on July 1. Until now UBS's Warburg Dillon Read and Credit Suisse First Boston have dominated the Swiss corporate finance market although they have been facing increasing competition from foreign operators, such as Goldman Sachs and Morgan Stanley.

Arthur Andersen last year recruited 65 new executives from companies ranging from PwC to NatWest Markets and Albert E. Sharp, taking its European corporate finance team to over 400. **William Hall, Zurich**

### HUNGARY

## Raba to pay dividend

Raba, the Hungarian commercial vehicle axle and engine maker, yesterday posted its eighth straight year of profits amid an ambitious diversification and globalisation drive. Pre-tax earnings grew 31 per cent to Ft3.8bn ($16m) in 1998, from Ft2.9bn in 1997, while net sales rose 10.3 per cent from Ft49.4bn to Ft54.5bn.

The company said it would pay its first dividend, of Ft80 per Ft1,000-denominated share, since being privatised in 1997. But it expects earnings pressure this year, as it plans to invest heavily in several big projects. Raba generates more than 70 per cent of its sales from Asia, North America and western Europe. **Ryan James Tutak, Győr**

### SWEDEN

## Saab intensifies sales effort

Saab, the Swedish aircraft and defence group, said it had intensified its efforts to develop the export version of the Gripen fighter aircraft and was now in final negotiations with the South African government on the export of 28 aircraft to the country.

In the three months to March 31 Saab, which is 35 per cent owned by British Aerospace, had pre-tax profits of SKr150m ($17.9m), compared with SKr245m a year earlier, on sales up from SKr1.8bn to SKr2bn. The company said the fall in profits was mainly due to lower capital gains and non-recurring items and that the outlook for the full-year remained good. **Nicholas George, Stockholm**

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# May date for LVMH ruling

By Alice Rawsthorn in London and David Owen in Paris

LVMH will have to wait until the end of May to hear the verdict of the Amsterdam court of appeal in the critical legal case it has brought against Gucci, the Italian fashion company with which it is locked in an $8.7bn bid battle.

The Dutch court initially indicated that it would deliver its ruling on June 3 but, following protests from LVMH and Gucci, it said yesterday that it would bring the verdict forward by a week to May 27.

LVMH is challenging the legality of the Gucci board's decision to issue 20m new shares (the same number that LVMH owns) to employees and to sell 40m new shares to Pinault-Printemps-Redoute, the French retail group, for $2.9bn.

The court announced that temporary measures imposed by previous interim rulings – freezing the voting rights on the Gucci employees' shares and PPR's right to nominate new Gucci directors – should stay in place.

It introduced a new stipulation that the Gucci board should not spend any of the $2.9bn received from PPR or proceed with a side-deal to buy Sanofi Beauté, a French company including the Yves Saint Laurent fashion house, from François Pinault, PPR's controlling shareholder.

The final verdict on May 27 will dictate the next direction of LVMH's conflict with Gucci and PPR.

If the court rejects LVMH's claims, Gucci and PPR will proceed with the Sanofi Beauté deal as the first step towards creating a luxury goods conglomerate to compete directly against LVMH.

But if LVMH wins, PPR would either have to retreat from Gucci or mount a counter-bid to top LVMH's proposed $8.7bn offer or $85-a-share.

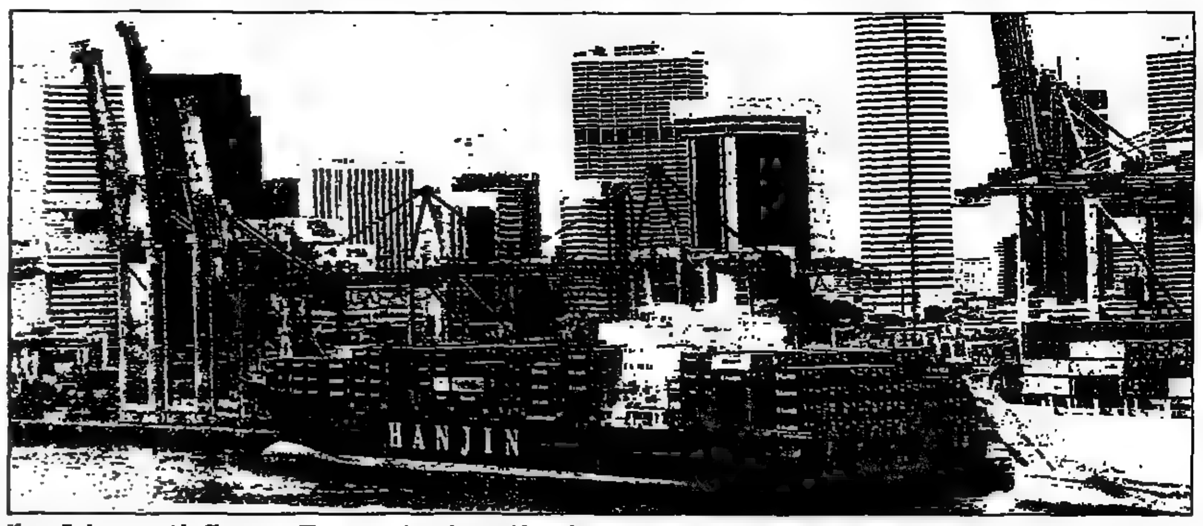
Yesterday's developments came as Pinault-Printemps-Redoute released first-quarter sales figures showing a near-15-per-cent advance over the period from €3.7bn to €4.25bn.

Shares of both PPR and LVMH rose markedly on a buoyant Paris market. PPR closed ahead 3.24 per cent at €152.7; LVMH gained 3.46 per cent to €253.5.

# All at sea, but now Keppel plots a course

## Restructure will see Singaporean group abandon confusing system of investments

By Sheila McNulty in Singapore



Keppel's home port in Singapore: The group started as a shipyard company but over the years seemed to lose its way

Ask a Singaporean what Keppel does and you could get 600 answers. This has long been the main problem facing the Singaporean conglomerate.

Over the past 31 years, it evolved from a shipyard company into a sprawling holding group with 10 publicly listed entities and a wide range of business interests. Somewhere along the way, it forgot about shareholder value and got mired in a confusing system of cross-holding prime investments, giving different divisions a share of profits. Its share price plunged, and its status as a blue-chip diminished.

"Keppel became harder and harder to understand because of its cross-holdings and huge number of business interests," says Elizabeth Cheng, analyst at ABN Amro Hoare Govett Securities. And the group made things even more difficult, analysts say, by not formally briefing them on results.

However, the company has started to address its problem, and is setting an example in east Asia by seizing the regional financial crisis as an opportunity to restructure and clean up its balance sheet. Keppel announced at the end of last year that it would divest, merge or close 50 non-core or under-performing companies and cut 600 of its 9,000 jobs. Severe cost-cutting will save about S$100m (US$59) per year, or about 12 per cent of group overhead.

It is removing cross-holdings to make the source of profits more transparent. It has set a three- to five-year time frame to achieve return on equity of 12 per cent for its core businesses, apart from property. And it will consider share buybacks to improve returns and increase shareholder value.

"After the last recession in the mid-80s, our profits improved steadily, and in the heady days of expansion, we were not as stringent as we should have been in our investment appraisals," said chairman Sim Kee Boon. "We lost our focus somewhat, spawning many new companies."

The group pledged to get out of regional liner shipping, leisure and aviation businesses in the US, non-performing overseas shipyards, trading and general contracting, third party hotel management, and health care services. Keppel is to focus on five core areas – marine; offshore rigs, energy and engineering; banking and financial services; property investment, development and management; and telecommunications and transportation.

"When it finishes unwinding all its cross-holding structure, Keppel Corp will emerge a much leaner group," says Foo Jou Min, analyst at SG Securities. "There will be five main listed subsidiaries. They will be larger companies, many with market caps of above S$1bn, which can better compete in the region."

Keppel is about 30 per cent government-owned, and therefore has been under pressure to restructure, to strengthen Singapore's competitiveness. But analysts note management has demonstrated its own resolve by moving quickly to begin unwinding cross-holdings and streamlining businesses.

The group expects to be profitable this year, after reporting a net loss of S$144.6m for the year ended December 31, which compared with a net profit of S$171.1m in the year-earlier period. Its performance was undermined by the regional crisis, which forced its banking and property divisions to take hefty provisions.

But Keppel does not expect to have to make further such provisions. Keppel Tat Lee Bank, Singapore's smallest banking group, is seeking a foreign investor to increase capital and expertise. And the group expects the provisions made, cost reductions and projected lower interest rates to enable its property operations to ride out the downturn in the market.

Analysts do not doubt Keppel's ability to achieve its targets. But they stress the need to look ahead. Several would like to see even fewer Keppel companies.

And once the management cleans up Keppel, some analysts say, it would do well to make way for a new, investor-focused team to steer the group into the next century.

## NEWS DIGEST

### BANKING

### Christiania profits fall less than expected

Christiania Bank, Norway's second largest bank, yesterday reported a lower than expected fall in net profit in the first quarter, and presented no unwelcome surprises for its 15,000 new shareholders. The company sold 16 per cent of its share capital, representing 90m shares, under a partial privatisation this quarter. It saw net profit fall from NKr623m a year earlier to NKr590m ($75.6m) on a rise in interest income from NKr3bn to NKr3.72bn. Operating profit, after a NKr62m write-back of a loan loss, grew from NKr666m to NKr827m.

"I am satisfied with the results, not just because the loan losses are lowered, but because the underlying operations have improved and cost-income ratio is at our target level (of less than 60 per cent)," said Tom Ruud, chief executive. **Valeria Sköld, Oslo**

### FöreningsSparbanken lifted

FöreningsSparbanken, Sweden's second largest bank, yesterday reported a sharp rise in profits mainly due to gains from the sale of properties. In the three months to March 31 the bank made an operating profit of SKr2.46bn ($293m) compared with SKr1.63bn a year earlier. The first quarter figure included a capital gain from the sale of property of SKr1.35bn compared with SKr338m. Loan loss provisions fell 39 per cent to SKr258m. Reinhold Geijer, chief executive, said the bank was now on the final stage of the merger process begun when Föreningsbanken and Sparbanken decided to merge in 1997.
**Nicholas George, Stockholm**

### FRANCE

### Fortis stays out of bank battle

Fortis, the Dutch-Belgian financial group, said yesterday it was not interested in taking small stakes in French banks and ruled out bidding for part of state bank Crédit Lyonnais. Unconfirmed press reports this week said that bid target Société Générale had asked Fortis to take a 10 per cent stake in the French bank but had been spurned. Maurice Lippens, Fortis president, said the investment banks advising SG, BNP and Paribas, involved in a three-way takeover battle, were looking for allies.

"Whether it's SocGen, BNP or Paribas, or others like CCF, these kind of people, their investment bankers are telling them to go to Fortis because we are considered to be a partner who will not want to take control," Lippens said. Investment bankers were exploring every avenue to line up allies to help block BNP's attempt to take over SocGen and Paribas, he added. SG and Paribas unveiled a friendly merger in February. BNP launched an unsolicited double offer for the two a month later, aiming to create a French banking giant. **Reuters, Paris**

### CZECH REPUBLIC

### CME sues Zelezny for $23m

Central European Media Enterprises (CME), the Nasdaq-quoted television group, yesterday filed an arbitration suit against Vladimir Zelezny, the licence holder of its Czech operation TV Nova, after sacking him last week as head of the station's operating company. CME claims return of the $23m it paid Mr Zelezny for his 5.8 per cent stake in CNTS, the operating company, plus damages on the grounds that he violated the 1997 contract by not respecting existing business relationships and preparing to set himself up in competition.

CME sacked Mr Zelezny for allegedly stripping the rights to buy and sell programmes from CNTS, in which it holds a 99 per cent stake. It has also accused him of transferring 296 trademarks from CNTS to his licence company. Mr Zelezny yesterday dismissed CME's charges and said he will sue for libel. He said he was sacked for refusing to agree to a merger between CNTS and his licence company that would have given CME control of the licence of its most profitable venture.
**Robert Anderson, Prague**

### CHEMICALS

### Rhodia shows resilience

Rhodia, the French specialty chemicals company, yesterday reported flat first quarter profits of €44m ($46.6m) in a result it said demonstrated its resilience in difficult economic conditions. Operating profit fell by nearly a third from €127m to €86m, but this was offset by a lower provision for income taxes and a one-off gain of €9m, versus a loss of €11m in 1998. The figures were achieved on sales down 13 per cent from €1.49bn to €1.3bn. Earnings per share were flat at €0.25. The company said it was maintaining its objective of an improvement of about 75 per cent in annual profits. The shares fell 3.69 per cent to €16.70. **David Owen, Paris**

## COMPANIES & FINANCE: UK

# Diageo selling four brands

By John Willman, Consumer Industries Editor

Diageo is putting four leading European drink brands up for sale, as part of the continuing rationalisation of its spirits portfolio to focus on core global brands such as Smirnoff vodka and Johnnie Walker scotch whisky.

The food and drinks group has asked Warburg Dillon Read, the investment bank, to contact potential buyers to see what price they might offer for the four, which include Cinzano, the number two vermouth globally.

The other three are brandies which are the market leaders in their countries of origin but have made only limited impact elsewhere: Metaxa of Greece, Asbach of Germany and Vecchia Romagna of Italy.

Analysts believe the four drinks, which together sell more than 6m nine-litre cases a year, could fetch more than £300m ($483m). This would come on top of more than £200m raised by Diageo in two North American sales of Canadian whiskies, bourbons and some other US spirits.

Diageo has recently put Cruzcampo, Spain's largest brewer, on the market and is expected to bank more than £350m from the sale. This would bring to almost £2bn the proceeds of disposals in the last year which began with the sale of Dewar's scotch and Bombay gin to Bacardi for £1.15bn in March 1998.

Diageo also announced yesterday that it had sold four ouzo brands to Campari, the Italian drinks company, for an undisclosed sum.

The four drinks put up for sale were acquired in the late 1980s or early 1990s by Guinness and Grand Metropolitan, the two companies that merged in 1997 to form Diageo. They bought them to boost their distribution networks in particular countries – and have been so successful that the national drinks have lost market share as consumers switch to their global brands.

Johnnie Walker Red, Diageo's leading scotch, now sells more in Greece than Metaxa and the four ouzo brands combined.

"These national brands have given Diageo a springboard for their international brands and now they don't need them any more," said Michael Bleakley, drinks analyst at Credit Suisse First Boston.

Potential buyers are likely to be middle-tier drinks groups that still need better distribution in selected European markets. These include Pernod Ricard, the French group famous for its aniseed drinks.

# New telephone customers face shut out at Egg

By Christopher Brown-Humes, George Graham and James Mackintosh

Egg, the direct banking arm of the Prudential, yesterday moved to stem its losses by closing its doors to new telephone customers.

The new bank, which has enjoyed explosive growth since its launch six months ago, said it would only accept new savings over the internet.

Egg said it had met a five-year target of winning £5bn ($8.05bn) of savings and 500,000 customers in just six months. But it repeated a previous estimate of this year's losses at £100m.

The new bank said it believed it could still grow rapidly, and it aims to win 2m internet customers in the next five years. The Pru's shares rose 30p to 870p yesterday.

Sir Peter Davis, Prudential chief executive, said: "Our figures demonstrate that the e-commerce revolution in financial services is already underway."

The Egg savings account, which pays 8 per cent gross interest, regularly features in best buy tables. The rate is 0.75 percentage points above base rates.

Mike Harris, Egg chief executive, said the savings inflow would have grown to £14bn to £15bn by the end of this year without action to choke off demand.

New customers will not be able to apply by phone, whether they have internet access or not. "We will probably get a bit of flak," he said.

Mr Harris sought to make a virtue out of the increasing popularity of the internet, saying costs could be as much as four times lower than telephone transactions and ten times lower than high street branches.

Even smaller and more traditional competitors have found the internet's lower costs allow them to cut prices.

# Kingfisher to launch free internet service

By Caroline Daniel

Kingfisher, the mass market retailer, is joining the ranks of free internet service providers through a link-up with the family holding company of Bernard Arnault, chairman of the LVMH luxury goods group.

The deal connects names such as Christian Dior and Moët et Chandon with the parent company of more prosaic businesses such as Woolworths, B&Q and Comet in the UK and Castorama in France.

To be called Libertysurf, it will be introduced in France – where it will be among the first such services – but is expected to be extended across continental Europe. There are, however, no plans to introduce it in the UK, which already has a substantial number of free internet service providers.

Group Arnault, the Arnault family company, said: "By being first to the French market with a free service it is a realistic aim to replicate the success of Dixon's Freeserve across Europe."

Since Dixons, the electrical goods retailer, launched its free internet service last September it has gained more than 1.3m users and analysts have forecast a further 1.8m by the end of the year.

Kingfisher, like Dixon's, is aiming to exploit its brand name in electrical retailing. It has 19 per cent of the French electrical goods market through its 163 Darty and 59 BUT stores. Darty stores will serve as the initial outlets for CD-Roms that connect users to the service.

The service is expected to be available through Kingfisher's other French stores such as the Castorama DIY chain in which Kingfisher holds a 55 per cent stake and then through the group's 200 other continental European stores, most of them in Germany, Belgium and the Netherlands.

# ARM to take over Acorn by way of £270m share-swap

By Richard Rivlin

Investors in Acorn, the microchip designer and supplier of digital television decoders, look set to swap their shares for stakes in ARM, the microprocessor designer, through a transaction arranged by Morgan Stanley Dean Witter, the investment bank.

The swap will be achieved through a £270m ($435m) agreed takeover of Acorn, one of the pioneers of home computing in the UK in the 1970s, by MSDW Investment Holdings, a special purpose vehicle set up by the investment bank.

This will allow Acorn shareholders to take possession of most of the company's 24.4 per cent stake in fast growing ARM.

MSDW is offering two shares in ARM for every five shares in Acorn. The deal initially valued Acorn shares at 279p, a premium of 14 per cent to its share price at the close on Monday.

Following a near 5 per cent fall in ARM's shares yesterday, the deal values Acorn's shares at 266p each. They closed yesterday 9½p ahead at 254½p.

MSDW is planning to sell Acorn's operating businesses. Pace Microtechnology is to buy Acorn's set-top box business for a net asset value of about £200,000.

Acorn's Media DSP arm, which specialises in digital signal processors for decoding media data, will be sold to its management. Stan Boland, an Acorn director, has been granted an option to purchase the business for its net asset value of £1.3m.

Details of the takeover were announced along with Acorn's results for 1998. The group reported an operating loss of £9.98m (£3.69m) on turnover of £11.5m (£25.2m).

It made a pre-tax profit of £11.1m (£2.88m loss), but only after it made a £18.1m one-off profit on the sale of some of its shares in ARM last year.

Advanced Risc Machines (ARM Holdings) was set up as a joint venture between Acorn and other groups, including Apple Computers in 1990.

ARM's shares closed down 32½p at 665p. Even after yesterday's fall, the shares have more than doubled in the past year. They have performed nearly twice as well as the FTSE All-Share Index.

MSDW Investment Holdings has received the support of Acorn directors and of Providence Investment Company, which has a 3 per cent stake.

Following the disposals, Acorn will retain about 3.5 per cent of ARM plus any residual assets.

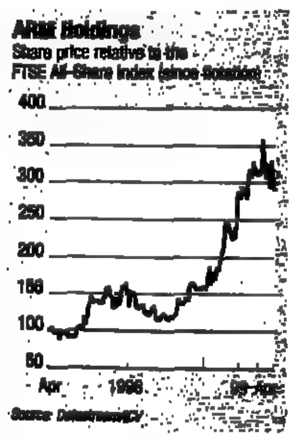
Gordon Owen, chairman of Acorn, said: "I am delighted that we have been able to generate a value-enhancing solution which enables Acorn shareholders to participate directly in Arm's extraordinary success."

## COMMENT

# ARM Holdings

One thing was obvious in an otherwise Byzantine deal: the popularity of ARM shares. The chip designer is now worth £1.2bn ($1.9bn) versus last year's flotation value of £265m. The deal involves a bank buying Acorn, the computer company, and paying for it in Acorn's principal asset: its 24 per cent stake in ARM. The point is to transfer ARM shares to Acorn shareholders without crystallising a whopping tax liability. Back to ARM. It designs a microprocessor blueprint and licenses it to big integrated chip manufacturers. ARM's ambition is to provide the global standard for high volume digital products, such as mobile phones. But it needs the big guys' distribution and marketing clout.

ARM Holdings
Share price relative to the FTSE All-Share Index (since flotation)



Source: Datastream/ICV

Why are ARM licensees prepared to give up some value to ARM? Partly because chip design is now so complicated – from 50 transistors on a chip to 10m in 30 years – that it makes sense to outsource. And ARM is hardly being too greedy: royalties are 1-5 per cent of the chip price. Demand for ARM-based chips has soared – roughly 50m were shipped last year versus 10m in 1997. But that compares with 3bn-4bn old-style "embedded" microprocessors. The big challenge for ARM is to manage growth and keep improving its designs. The massive research and development spend, at some 28 per cent of sales, should reassure on that count. Signing up more licensees – such as the influential Motorola – would underpin the rapid growth; the rest is in management's ARMs.

**Egg**

Is Prudential trying to have its cake and eat it? Presenting a rationing of access to its Egg savings account as the latest gets, it is not difficult to attract customers if you are paying hot internet story certainly looks rich. As for beating targets, a higher interest rate – 8 per cent – than you charge most of your borrowers. This is, of course, a recipe for losses: £175m in the first two years of operation. But there is method in Pru's madness. It claims internet transactions cost a tenth of branch-based and a quarter of phone-based ones. This means that its cheap mortgages make money (just about) at less than ¼ of a point above base rates – which is where its savings rates are heading. Offering more personal loans really does promise to build up margins. It is a pity the rest of Pru is less exciting than this tiny part.

## RESULTS

| | | Turnover (£m) | | Pre-tax profit (£m) | | EPS (p) | | Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Aberdeen Asset | 6 mths to Mar 31 ☆ | 27.5 | (22.7) | 5.56‡ | (3.82‡) | 2.71 | (1.7) | 1.7 | June 16 | 1.5 | - | 4.5 |
| Acorn | Yr to Dec 31 | 11.5 | (25.2) | 11.1‡ | (2.88L‡) | 8.8 | (3.7L) | - | - | - | - | - |
| Alexandra | Yr to Jan 30 ☆ | 64.2 | (66) | 7.1 | (6.8) | 15.2 | (11.1) | 5.1 | July 2 | 4.5 | 7.6 | 7 |
| Bertam | Yr to Dec 31 | 2.24 | (2.4) | 2‡ | (2.34‡) | 6.5 | (12.53) | 5 | July 9 | 5☆☆ | 5 | 5☆☆ |
| Huntingdon Life | 3 mths to Mar 31 | 13.4 | (13.4) | 2.78L | (4.01L) | 1L‡ | (3.5L) | - | - | - | - | nil |
| Jarvis Porter | Yr to Jan 31 | 106.4 | (101.2) | 2.03L‡ | (14) | 5.4L | (20) | 1.25 | July 28 | 5.3 | 3.75 | 7.8 |
| MSB Intl | Yr to Jan 31 | 191.3 | (128.5) | 8.09‡ | (9.04) | 27.4 | (30) | 8.3 | May 31 | 6 | 12.5 | 8. |
| OEM | 6 mths to Dec 31 | 0.014 | (0.055) | 0.111L | (0.161L) | 1.21 | (31) | - | - | - | - | - |
| Phytopharm | 6 mths to Feb 28 | 1.35 | (0.029) | 1.45L | (2.12L) | 4.3L | (6.8L) | - | - | - | - | - |
| Probus Estates | 15 mths to Dec 31 ☆ | 13.6 | (12.3) | 0.172‡ | (25.4) | 0.6‡ | (32L) | - | - | - | - | - |
| Rowe Evans | Yr to Dec 31 | 4.2 | (6.79) | 6.33 | (9.31‡) | 6.91 | (12.64) | 4.25 | Aug 2 | 4.25☆ | 4.25 | 4.25☆ |
| Waverley Mining | 6 mths to Dec 31 | - | (-) | 2.42L‡ | (1) | 5.2L | (2.24) | - | - | - | - | - |

| Investment Trusts | | NAV (p) | | Attributable Earnings (£m) | | EPS (p) | | Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dres RCM Sec 2005 | 6 mths to Mar 31 | 178.7 | (157.1) | 0.643L | (0.57L) | 3.18L | (2.83L) | - | - | - | - | - |
| Dres RCM Sec 2008 | 6 mths to Mar 31 | 128.2 | (111.1) | 0.463L | (0.072L) | 2.22L | (0.36L) | - | - | - | - | - |
| Gartmore European | 6 mths to Mar 31 | 354.2 | (280.2‡) | 0.071 | (0.208L) | 0.15 | (0.54L) | - | - | - | - | 1.5 |
| M&G Equity | 9 mths to Mar 31 | 84.88 | (98.41) | 8.7 | (5.73) | 3.21 | (2.66) | 0.99‡ | June 18 | 0.95 | - | 3.84 |
| Mercury Keystone | Yr to Mar 31 | 1,214 | (1,227) | 2.37 | (1.81) | 16.54 | (12.71) | 10 | June 17 | 8 | - | 25# |
| ML Latin American | Yr to Feb 28 | 35.34 | (83.71) | 0.574 | (0.444) | 1.07 | (0.69) | 0.65 | June 29 | 0.4 | 0.65 | 0.4 |

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ☆Comparatives restated. ‡After exceptional charge. ¥After exceptional credit. †On increased capital. ☆Comparatives for 53 weeks. ☆Foreign income dividend. ☆☆Includes FID element. ♦At September 30. ‡Third interim; makes 2.97p to date. #Excludes 15p special.

# Small-caps prepare to seize big moment

Dublin's smaller stocks could be ready for a comeback despite fears about being swamped by the euro, writes **John Murray-Brown**

Ireland's lesser known companies are starting to challenge the notion that the small-cap sector would be the big loser once the European single currency was introduced.

After underperforming the main Irish stock exchange index in 1997 and 1998, there are tentative signs that the companies with market capitalisation of less than €1bn ($1.06bn) – which account for all but 10 of the Dublin listings – may be poised for a comeback.

A number have seen sharp rises in their share price in recent weeks, including Waterford Wedgwood, the luxury goods company, and Ardagh, the glassmaker. Robbie Kelleher, head of research at Davys stockbrokers, says investors are starting to look more at the latent value in the small-cap sector rather than worrying about technical arguments.

Some brokers remain sceptical. "The small-caps are never going to be on the same ratings as the large-cap stocks, except perhaps in the technology sector," says Matt Minch, director with Tilman Asset Management, which acts for a number of high-worth private clients and charities.

"There just isn't the liquidity. If a stock is out of favour, you will find offers but no bid, or sometimes bids but no offers," says Mr Minch.

Institutions have traditionally been averse to illiquid small companies, prefering to look for larger companies with global product franchises. Small-cap stocks are also poorly represented in those sectors driven by global merger activity such as banks, pharmaceuticals and telecoms.

In addition, in recent months, all Irish companies have seen some selling as Irish institutions seek to rebalance their portfolios to reflect the fact that, as part of the euro-zone, they no longer have to match their Irish domestic liabilities exclusively with Irish assets.

With fund managers starting to pick stocks on a sectoral pan-European basis, the investment thresholds have also been raised. This has made it particularly difficult for smaller companies to attract an overseas following.

"In pan-European indices, the definitions of what is a small and medium-size company will be wider. Thus the move to larger stocks," says Gervais Williams of Gartmore's Small Companies Fund. Moreover, in the UK, where there is some interest in Irish small stocks, there is less pressure on fund managers as the UK is outside the euro.

In 1996, small-cap Irish stocks enjoyed a premium of 7 per cent over larger companies. Today they are trading at a valuation discount of close to 40 per cent, according to ABN-Amro.

"Investors will be very discriminating as to which companies they buy. But the liquidity can work both ways, by pushing up prices too," says Liam Igoe of Goodbody stockbrokers.

Earnings remain respectable; the outlook is rosy with corporation tax and interest rates at historic lows; Irish gross domestic product is growing faster than any European economy, with few signs of inflation.

Pat O'Sullivan Greene, an analyst at ABN-Amro, predicts the Irish market will follow the UK, where the small-cap sector has risen 20 per cent this year as fears of a recession eased and cyclical stocks picked up.

The linkages are underpinned by the fact that Irish small companies now derive 44 per cent of their sales from the UK – the result of aggressive acquisition strategies in what is the traditional market for most Irish exports.

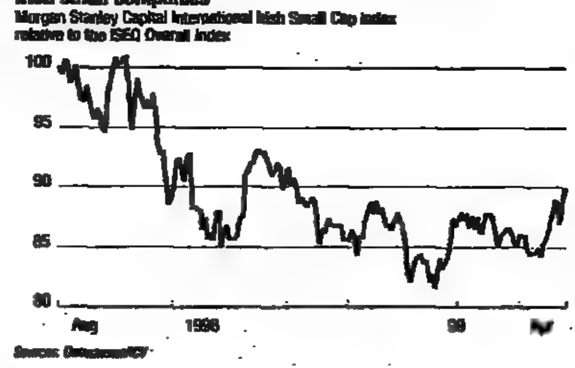
"We detect a re-appraisal by some Irish institutions of the wisdom of aggressively restructuring portfolios in the new euro environment, if it means selling good quality Irish stocks at single-digit multiples and re-investing the proceeds in European companies at double the rating and where earnings prospects over the next number of years are not nearly as assured," says Mr Kelleher of Davys.

He is looking to private clients – Ireland's new rich – to provide some of the investor interest. Rory Gillen of NCB brokers says: "If the institutions and private clients do not mop up this cheap stock, then you could see more corporate activity. The trade buyers and venture capitalists are not about to pass it by."

This is already happening. Last week, Jurys, the hotel group, completed the takeover of the privately owned Doyle's Group. Unidare, the small engineering concern, is attracting the attentions of Dermot Desmond, perhaps Ireland's most successful investor. There is even speculation that the management at IWP, the firelighters to deodorants industrial group, is considering taking the company private.

Irish small companies

Morgan Stanley Capital International Irish Small Cap index relative to the ISEQ Overall index




Source: Datastream/ICV

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Source: Interactive Data/FT Information.

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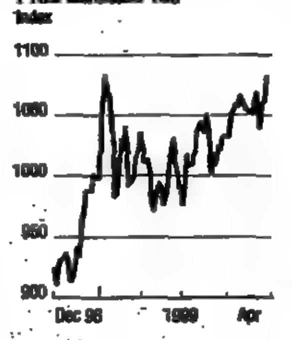
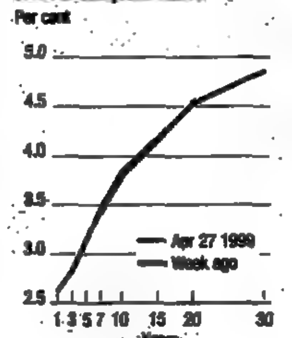



Euro bond yield curve

Per cent




Source: FTSE International. Interactive Data/FT Information.

### EURO SPOT FORWARD AGAINST THE EURO

[illegible]

## EURO.NM

[illegible]

## EASDAQ

[illegible]

# ASX and SFE reach merger agreement

By Gwen Robinson in Sydney

The Australian Stock Exchange (ASX) yesterday confirmed it had reached agreement with the Sydney Futures Exchange (SFE) on a proposed merger.

The initial agreement between the two exchanges, which have been discussing the proposal since last December, paves the way for a complicated approval process.

The merger would require legislative and parliamentary approval as well as support from the SFE's four classes of membership, under the exchange's current mutual structure.

Heads of both exchanges said yesterday they hoped the merger could be completed this year, possibly in November. But the timing would depend on the approval process, including a vote in early September by SFE members on demutualisation.

In late trading ASX shares jumped more than 16 per cent to A$15.40 before closing at A$15.10, up 14 per cent. ASX on Monday morning suspended trading of its shares ahead of an announcement on the merger, originally scheduled for this morning. Yesterday afternoon, however, the ASX and SFE decided to announce their agreement in principle.

Richard Humphry, ASX managing director, and Les Hosking, SFE's chief executive, said the merger would value SFE at about A$210m (US$136m), including SFE's surplus cash of about A$70m. The SFE, which operates under its traditional mutual structure, last year overtook Tokyo to become the Asia-Pacific region's largest futures exchange, trading 30m futures contracts with a nominal value of A$10,500bn.

ASX's market capitalisation has soared to about A$1.4bn since the exchange demutualised and listed on its own boards last October.

The shares, which listed at A$4.10, have nearly quadrupled, driven by record trading volumes and strong earnings.

Under the merger agreement, ASX would absorb the SFE, whose members would have the option of taking A$70m in ASX shares. The shares would be issued to SFE members at a discount of about 12.5 per cent to the volume-weighted average market price of ASX shares over a period to be determined, Mr Humphry said.

The merger proposal would also require approval from the Australian Competition and Consumer Commission, the government's antitrust watchdog. ASX and SFE officials said they were confident of gaining the commission's approval, as the two exchanges had consulted the ACCC in the course of their negotiations.

Mr Hosking and Mr Humphry said yesterday the merger would expand the range of financial products and boost Australia's standing as a regional financial centre, and allow greater trading efficiencies and technology sharing benefits.

"The merger is logical – it makes sense for our members and makes sense for Australia's markets," Mr Hosking said.

# US cuts spread to Europe

BENCHMARK BONDS

By Vincent Boland in London and John Labate in New York

Bonds closed broadly higher as the spotlight turned to equities. The strongest market was in US Treasuries, which cut the spread against Europe and the UK as investors bought bonds to back a stronger US dollar.

However, Brazil's $3bn global benchmark issue slumped amid heavy selling less than a week after its launch. Its spread over US Treasuries widened nearly 10 per cent to about 740 basis points.

The move was blamed on the shock of the arrest on Monday of Francisco Lopes, former chairman of the Brazilian central bank, after a clash with the Senate.

The tone of the US Treasury market remained mixed ahead of the release later this week of new reports on gross domestic product and the widely watched employment cost index.

Long-dated issues led the gainers. The 30-year benchmark bond was up [illegible] in early afternoon trading to 95[illegible], sending the yield down to 5.551 per cent. The 10-year note was [illegible] ahead at 96[illegible], yielding 5.216 per cent, and the two-year note was unchanged at 99[illegible], yielding 5.011 per cent.

The gains helped Treasuries to cut the yield spread over German bunds to 144 basis points from 148 points, and to 66 basis points over UK gilts from 74 points.

European gains were curtailed by news of forthcoming new issues that would drain some liquidity. The Bundesbank is to invite tenders today for a €5bn tap to the benchmark 10-year bund, and France is to create a new 10-year issue next week.

Analysts said that, despite the weight of supply, investors were still buying longer-dated issues and playing the yield curve in Europe.

While European cash markets were relatively quiet, bund futures were busy. The June contract for the benchmark bund was trading 0.36 higher late yesterday at 115.79, with 530,000 contracts traded. The yield on the 10-year bund stood at just over 3.85 per cent, a slight fall on its overnight level.

UK gilts gave up early gains to end largely unchanged after a CBI survey showed industry more bullish about economic prospects. The June contract settled unchanged at 116.46 in thin futures trading.

# Italian insurer in €1.5bn debut

NEW ISSUES

By Khozem Merchant

Assicurazioni Generali, Italy's biggest insurer, launched its debut international bond, a 15-year €1.5bn offering. Generali, which is embroiled in speculation that it is to mount a bid for a rival, benefited from "name recognition".

Germany's Fresenius, the world's largest maker of dialysis equipment, did not. Its first visit to the international bond market was intended to establish a benchmark, said lead manager WestLB. The bond's performance would establish Fresenius as a credit name, paving the way for its next, globally-targeted offering.

This is what many German companies have been doing since January, notably public-sector banks with their jumbo pfandbriefe.

German investors bought about 80 per cent of Fresenius's five-year €400m bond. Proceeds will be used to finance a recent takeover

The bond, which was unrated, was priced to yield 139 basis points over the German bund. Bankers said the spread would have been 20 to 40 basis points wider had this issue been targeted at a non-German market.

A high-yield issue by a Fresenius subsidiary last year was launched at 250 basis points over the government benchmark. This was not a precedent Fresenius wanted to follow.

"We wanted to implement the benchmark; that will help the next offering," said WestLB, lead manager.

Gallaher, the UK tobacco company, launched its first sterling-denominated "tobacco credit", a 10-year £300m issue. There has been an absence of this type of asset since BAT redeemed its stock of sterling bonds in 1996. This paucity attracted many new investors and many of the tickets were larger than expected.

Gallaher does not have "US litigation exposure" and this cheered investors. A quarter of the issue was sold in Germany, in line with plans to broaden the investor base. It was priced to yield 200 basis points over the UK gilt and tightened in secondary trading.

## New international bond issues

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees % | Spread bp | Book-runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Fed Home Loan Banks(a)‡ | 1bn | 5.00€ | 100.00R | May 2004 | 0.20R | +56(4%Feb04) | BStrns/FstTenn/Goldman |
| KfW International Finance | 750 | 5.375 | 99.816R | May 2002 | 0.1875R | +38(5¾% 2yr) | BStrns/Dresdner/Nomura |
| Bank of Western Australia‡ | 100 | (b) | 100.06 | May 2000 | 0.05 | - | Paribas |
| **EUROS** | | | | | | | |
| Generali Finance BV | 1.5bn | 4.75 | 99.495R | May 2014 | 0.45R | +65§ | [illegible] |
| NTT(f) | 750 | 3.75(i) | 99.24R | May 2006 | 0.30R | +40(7¼%Apr06) | Deutsche/Paribas |
| Fresenius Finance BV‡ | 200 | (c) | 99.712R | May 2002 | 0.35R | - | WestLB |
| Fresenius Finance BV | 400 | 4.50 | 99.453R | May 2004 | 0.75R | +139(May04) | WestLB |
| DeNB | 300 | (d) | 99.902R | May 2004 | 0.15R | - | Barclays/Commerzbank |
| DePfa Bank Europe‡ | 250 | (e) | 100.19 | May 2001 | 0.30 | - | Unicredito Italiano |
| Bca Popolare Comm e Ind | 200 | (h) | 99.511R | Jun 2004 | 0.35R | - | Banca IMI |
| GECC(j) | 125 | 3.00 | 100.41R | Feb 2001 | 0.15R | [illegible] | Paribas |
| **STERLING** | | | | | | | |
| Gallaher Group plc | 300 | 6.625 | 99.792R | May 2009 | 0.60R | +200(Dec09) | Dresdner/Goldman Sachs |
| **SWISS FRANCS** | | | | | | | |
| Reseau Ferre de France | 300 | 3.75 | 102.35 | Jun 2011 | 2.875 | - | CSFB |
| [illegible] | 200 | 2.00 | 101.30 | Jun 2004 | 2.00 | - | CSFB |

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ‡Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable from 17/5/00 at par. b) 3-mth Libor flat. c) 3-mth Euribor +60bp. [illegible]

# NEWS DIGEST

GROWTH STOCKS

## Swiss stock exchange in plan to form new market

The Swiss stock exchange is to set up a new market for small growth stocks in a bid to compete with Paris's Nouveau Marche and Germany's Neuer Markt. The Swiss Exchange is Europe's fourth biggest stock exchange. But despite its size it has failed to attract the small growth stocks that have flocked to raise capital in Paris and Frankfurt. Under the Swiss proposal, which has to be cleared by the Swiss Banking Commission, new companies will have to have a minimum capital of SFr2.5m, a track record of at least a year and a minimum free share float of 20 per cent.

The new sector is targeted at raising finance for growth companies and is not intended just to provide an exit for existing shareholders. Companies must raise new capital and the portion of the shares being offered to the public must represent at least 50 per cent of the capital increase.

Companies will be required to adopt international accounting standards and provide quarterly reports. The Swiss Exchange, which has yet to name the new market, said its listing requirements were in line with "the spirit" of EuroNM, the umbrella organisation for small European growth markets. Switzerland is not part of the European Union but is anxious to participate in projects to harmonise rules and regulations to create a network of European markets for growth companies. **William Hall, Zurich**

CROSS-MARGINING

## CBOT, CME set launch date

The Chicago Board of the Trade and the Chicago Mercantile Exchange, the two big US futures exchanges, yesterday set a May 28 launch date for their cross-margining and "common banking" agreements, subject to regulatory approval. The deal will allow futures firms and traders with positions on both exchanges to "offset" these where appropriate, thus reducing margin and performance bond requirements. For example, a firm with positions in the Eurodollar short-term interest rates contracts on the CME and in the CBOT's two-year Treasury notes futures contracts could potentially make significant savings. The exchanges say millions of dollars of margin and performance bond requirements could be freed up.

The cross-margining agreement was salvaged from a more extensive plan by the two Chicago exchanges that would have seen them pool their back-office systems. This was dropped last year when it was voted down by members of the CBOT – drawing anger from the big brokerage firms that had the most to gain from the arrangement. An estimated 90 per cent of CME member firms are also members of the CBOT.

The cross-margining agreement will initially cover only firms' proprietary and house accounts but later it will be widened to cover independent traders, marketmakers and market customers. **Nikki Tait, Chicago**

# WORLD BOND PRICES

## BENCHMARK GOVERNMENT BONDS

| Apr 27 | Red Date | Coupon | Bid Price | Bid Yield | Day chg yield | Wk chg yield | Month chg yld | Year chg yld |
|---|---|---|---|---|---|---|---|---|
| Australia | 01/01 | 8.750 | 105.5001 | 4.72 | -0.06 | -0.02 | -0.15 | -0.16 |
| | 08/08 | 8.750 | 124.7178 | 5.34 | -0.04 | +0.02 | -0.14 | -0.27 |
| Austria | 03/01 | 5.250 | 104.4800 | 2.76 | +0.06 | - | -0.22 | -1.40 |
| | 01/08 | 5.000 | 107.4300 | 3.97 | -0.04 | - | -0.23 | -1.13 |
| Belgium | 03/01 | 5.000 | 104.1200 | 2.74 | -0.03 | -0.05 | -0.33 | -1.49 |
| | 03/09 | 3.750 | 97.1600 | 4.10 | -0.03 | -0.01 | -0.20 | -0.98 |
| Canada | 12/00 | 5.000 | 100.3000 | 4.80 | +0.06 | +0.18 | -0.14 | -0.37 |
| | 06/08 | 6.000 | 106.1800 | 5.14 | -0.04 | +0.09 | - | -0.30 |
| Denmark | 11/00 | 9.000 | 108.7300 | 3.05 | -0.03 | -0.04 | -0.36 | -1.46 |
| | 11/09 | 6.000 | 114.0400 | 4.21 | -0.04 | +0.02 | -0.24 | -1.08 |
| Finland | 08/00 | 4.000 | 101.4900 | 2.84 | - | -0.02 | -0.36 | -1.24 |
| | 04/08 | 5.000 | 107.5900 | 4.08 | -0.02 | - | -0.21 | -0.84 |
| France | 07/00 | 4.000 | 101.5700 | 2.69 | +0.01 | - | -0.33 | -1.52 |
| | 04/08 | 7.250 | 123.0700 | 3.47 | -0.04 | -0.01 | -0.30 | -1.32 |
| | 04/08 | 4.000 | 100.4200 | 3.95 | -0.03 | - | -0.24 | -1.09 |
| | 04/29 | 5.500 | 108.8000 | 4.87 | -0.02 | - | -0.22 | -0.88 |
| Germany | 05/01 | 5.000 | 104.5300 | 2.69 | -0.02 | -0.04 | -0.31 | -1.32 |
| | 01/08 | 6.000 | 114.3300 | 3.66 | -0.03 | -0.02 | -0.28 | -1.30 |
| | 01/09 | 3.750 | 99.3600 | 3.83 | -0.03 | - | -0.21 | -1.21 |
| | 07/28 | 4.750 | 88.7200 | 4.83 | -0.03 | - | -0.21 | -0.74 |
| Greece | 03/00 | 9.800 | 100.5200 | 9.08 | -0.07 | -0.03 | +0.08 | -0.77 |
| | 01/08 | 6.300 | 103.2000 | 5.85 | -0.07 | +0.03 | -0.16 | -2.18 |
| Ireland | 10/01 | 6.500 | 109.0400 | 2.82 | -0.01 | -0.01 | -0.31 | -2.30 |
| | 08/08 | 6.000 | 118.3000 | 3.88 | -0.04 | -0.03 | -0.32 | -1.30 |
| Italy | 07/01 | 4.800 | 103.5000 | 2.82 | -0.02 | -0.03 | -0.21 | -1.81 |
| | 07/03 | 4.800 | 105.1400 | 3.18 | -0.03 | -0.03 | -0.27 | -1.87 |
| | 05/08 | 4.500 | 103.5500 | 4.08 | -0.04 | +0.01 | -0.21 | -1.16 |
| | 11/27 | 6.600 | 121.5100 | 5.07 | -0.01 | +0.02 | -0.19 | -0.82 |
| Japan | 12/00 | 6.900 | 110.9900 | 0.15 | -0.01 | - | -0.05 | -0.38 |
| | 12/03 | 4.100 | 116.0920 | 0.88 | -0.04 | -0.08 | -0.29 | -0.60 |
| | 06/08 | 1.800 | 104.5780 | 1.27 | -0.07 | -0.11 | -0.37 | -0.28 |
| | 09/18 | 2.300 | 101.2620 | 2.22 | -0.09 | -0.08 | -0.28 | -0.19 |
| Netherlands | 01/01 | 9.000 | 110.3000 | 2.71 | -0.01 | -0.01 | -0.31 | -1.43 |
| | 07/08 | 3.750 | 98.0700 | 3.96 | -0.04 | -0.01 | -0.21 | -1.05 |
| New Zealand | 02/01 | 8.000 | 105.4749 | 4.71 | -0.01 | +0.06 | -0.18 | -2.96 |
| | 07/09 | 7.000 | 109.7046 | 5.73 | -0.03 | +0.03 | -0.07 | -1.07 |
| Norway | 05/01 | 7.000 | 104.3500 | 4.74 | +0.07 | +0.09 | -0.08 | +0.28 |
| | 05/08 | 5.500 | 105.3000 | 4.70 | +0.03 | +0.01 | -0.18 | -0.71 |
| Portugal | 03/00 | 5.375 | 102.3100 | 2.89 | -0.05 | -0.03 | -0.30 | -1.80 |
| | 06/08 | 5.375 | 109.6900 | 4.08 | -0.03 | -0.02 | -0.22 | -1.07 |
| Spain | 01/01 | 6.000 | 103.9400 | 2.85 | -0.02 | -0.03 | -0.33 | -1.68 |
| | 07/09 | 0.000 | 107.4600 | 4.10 | -0.03 | - | -0.44 | -1.05 |
| Sweden | 05/00 | 10.250 | 107.0577 | 3.00 | - | +0.01 | -0.10 | -1.70 |
| | 05/08 | 6.500 | 116.9700 | 4.20 | -0.02 | +0.06 | -0.23 | -1.10 |
| Switzerland | 08/00 | 4.500 | 103.6000 | 1.16 | - | +0.05 | -0.21 | -0.78 |
| | 01/08 | 4.250 | 115.7000 | 2.24 | -0.03 | +0.03 | -0.02 | -0.81 |
| UK | 11/01 | 7.000 | 104.5800 | 5.06 | +0.04 | +0.18 | +0.27 | -1.61 |
| | 12/03 | 6.500 | 107.0600 | 4.77 | +0.02 | +0.12 | +0.15 | -1.27 |
| | 12/08 | 5.750 | 109.8400 | 4.67 | +0.01 | +0.12 | +0.02 | -1.35 |
| | 12/28 | 6.000 | 123.8100 | 4.58 | +0.02 | +0.08 | +0.01 | -1.31 |
| US | 01/01 | 4.500 | 99.1797 | 4.99 | -0.04 | +0.03 | -0.03 | -0.72 |
| | 02/04 | 4.750 | 98.5524 | 5.09 | -0.02 | +0.05 | -0.01 | -0.78 |
| | 11/08 | 4.750 | 95.5698 | 5.21 | -0.02 | +0.08 | - | -0.65 |
| | 02/29 | 5.250 | 95.7144 | 5.54 | -0.03 | +0.03 | -0.06 | -0.56 |

London closing * New York mid day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

## 10 YEAR BENCHMARK SPREADS

| Apr 27 | Bid Yield | Spread vs Euros | Spread vs T-Bonds |
|---|---|---|---|
| Australia | 5.36 | +1.52 | +0.14 |
| Austria | 4.00 | +0.16 | -1.22 |
| Belgium | 4.11 | +0.27 | -1.11 |
| Canada | 5.15 | +1.31 | -0.07 |
| Denmark | 4.19 | +0.35 | -1.03 |
| Finland | 4.04 | +0.20 | -1.18 |
| France | 3.94 | +0.10 | -1.28 |
| Germany | 3.84 | - | -1.38 |
| Greece | 5.81 | +1.97 | +0.59 |
| Ireland | 3.92 | +0.08 | -1.30 |
| Italy | 4.10 | +0.26 | -1.12 |
| Japan | 1.38 | -2.46 | -3.84 |
| Netherlands | 3.96 | +0.12 | -1.26 |
| New Zealand | 5.73 | +1.89 | +0.51 |
| Norway | 4.70 | +0.86 | -0.52 |
| Portugal | 4.12 | +0.28 | -1.10 |
| Spain | 4.06 | +0.22 | -1.16 |
| Sweden | 4.26 | +0.42 | -0.96 |
| Switzerland | 2.45 | -1.39 | -2.77 |
| UK | 4.63 | +0.79 | -0.59 |
| US | 5.22 | +1.38 | - |

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

## EMERGING MARKET BONDS

| Apr 27 | Red date | Coupn | S & P Rating | Bid price | Bid yield | Day's chge yld | Mth's chge yld | Sprd vs US |
|---|---|---|---|---|---|---|---|---|
| **IN EUROPE** | | | | | | | | |
| Croatia | 02/02 | 7.000 | BBB- | 92.4500 | 10.13 | -0.02 | +0.93 | +5.09 |
| Poland | 07/04 | 7.125 | BBB- | 104.9367 | 5.98 | -0.27 | -0.42 | +0.88 |
| Russia | 06/07 | 10.000 | n/a | 37.9500 | 31.50 | +1.27 | -11.42 | +26.33 |
| **IN LATIN AMERICA** | | | | | | | | |
| Argentina | 09/27 | 9.750 | BB | 87.2000 | 11.26 | - | -0.42 | +5.74 |
| Brazil | 05/27 | 10.125 | B+ | 78.8500 | 12.84 | +0.12 | -1.61 | +7.42 |
| Mexico | 05/26 | 11.500 | BB | 118.1000 | 9.61 | -0.05 | -0.68 | +4.11 |
| **IN ASIA** | | | | | | | | |
| China | 07/06 | 7.750 | BBB+ | 105.0000 | 6.85 | -0.08 | -0.57 | +1.70 |
| Philippines | 10/16 | 8.750 | BB+ | 98.5000 | 9.15 | +0.01 | -0.31 | +3.81 |
| Thailand | 04/07 | 7.750 | BBB- | 103.2000 | 7.21 | -0.08 | -0.29 | +2.04 |
| **IN AFRICA/MIDDLE EAST** | | | | | | | | |
| Lebanon | 07/00 | 9.125 | BB- | 103.0868 | 6.42 | -0.31 | -1.78 | +1.44 |
| South Africa | 10/06 | 8.375 | BB+ | 102.6350 | 7.90 | -0.05 | -0.38 | +2.75 |
| Turkey | 09/07 | 10.000 | B | 94.6000 | 10.99 | -0.05 | -0.61 | +5.82 |
| **IN BRADY BONDS** | | | | | | | | |
| Argentina | 03/23 | 5.750 | BB | 71.1250 | 8.95 | -0.08 | -0.11 | +3.50 |
| Brazil | 04/14 | 5.000 | B+ | 68.2500 | 12.30 | +0.12 | -1.26 | +7.00 |
| Mexico | 12/19 | 6.250 | BB | 79.8750 | 8.30 | - | -0.25 | +2.91 |
| Venezuela | 03/20 | 6.750 | B+ | 74.4779 | 9.60 | -0.12 | -1.48 | +4.20 |

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

## BOND FUTURES AND OPTIONS

### France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 98.15 | 98.27 | -0.04 | 98.31 | 98.09 | 29,289 | 86,921 |
| Sep | - | 98.05 | -0.08 | - | - | 0 | 0 |

LONG TERM EURO BOND OPTIONS (MATIF)

| Strike Price | Calls May | Calls Jun | Calls Jul | Puts May | Puts Jun | Puts Jul |
|---|---|---|---|---|---|---|
| 93 | 3.29 | 3.31 | - | - | 0.03 | - |
| 94 | 2.29 | 2.38 | - | - | 0.08 | - |
| 95 | 1.33 | 1.50 | - | 0.01 | 0.34 | - |
| 96 | 0.82 | 0.80 | - | 0.10 | 0.74 | - |

Est. vol. total, Calls - Puts - . Previous day's open int., Calls - Puts - .

### Germany

NOTIONAL EURO BUND FUTURES (EUREX) €100,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 115.70 | 115.76 | +0.33 | 115.85 | 115.58 | 524,779 | 664,077 |
| Sep | 115.60 | 115.60 | +0.24 | 115.67 | 115.48 | 16,463 | 27,396 |

NOTIONAL EURO BUND (BOBL) FUTURES (EUREX) €100,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 109.78 | 109.79 | +0.09 | 109.81 | 109.72 | 123,107 | 248,770 |

### Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 114.70 | 114.77 | +0.30 | 114.83 | 114.61 | 9119 | 38117 |

### Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 99.03 | 99.05 | +0.23 | 99.13 | 98.93 | 13,916 | 21,160 |

### UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | - | 107.45 | -0.12 | - | - | 0 | 0 |
| Sep | - | 107.45 | -0.12 | - | - | 0 | 0 |

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

| | Open | Close | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 116.65 | 116.46 | - | 116.65 | 116.38 | 29830 | 81579 |
| Sep | - | 116.16 | - | - | - | 0 | 0 |

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

| Strike Price | Calls Jul | Calls Sep | Puts Jul | Puts Sep |
|---|---|---|---|---|
| 11550 | 1.47 | 1.93 | 0.81 | 1.27 |
| 11600 | 1.19 | 1.66 | 1.03 | 1.50 |
| 11650 | 0.95 | 1.42 | 1.29 | 1.76 |
| 11700 | 0.74 | 1.20 | 1.58 | 2.04 |
| 11750 | 0.57 | 1.01 | 1.91 | 2.35 |
| 11800 | 0.43 | 0.84 | 2.27 | 2.68 |

Est. vol. total, Calls 17 Puts 3. Previous day's open int., Calls 11451 Puts 6881

### US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

| | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 121-12 | 121-12 | -0-01 | 121-14 | 121-05 | 290,125 | 572,649 |
| Sep | 120-24 | 120-28 | -0-02 | 120-30 | - | 5,726 | 41,991 |
| Dec | - | - | - | - | - | 156 | 4,528 |

### Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 135.56 | 135.56 | - | 135.62 | 135.45 | 1755 | n/a |
| Sep | 134.78 | 134.71 | - | 134.78 | 134.78 | 42 | n/a |

### Euro

€ BUND FUTURES (MATIF) €100,000

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 108.90 | 108.85 | +0.23 | 108.90 | 108.90 | 1 | 20 |

NOTIONAL EFB SWAP FUTURES (LIFFE)* 5yr 4.0% €100,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | - | 102.48 | +0.10 | - | - | 0 | 314 |

NOTIONAL EFB SWAP FUTURES (LIFFE)* 10yr 4.5% €100,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | - | 101.99 | +0.26 | - | - | 0 | 367 |

* Traded on APT prior to listing on LIFFE CONNECT™ on 10/5/99. All open interest figs. are for previous day.

## INTEREST RATE SWAPS

| Apr 26 | Euro-€ Bid | Euro-€ Ask | £ Stlg Bid | £ Stlg Ask | SwFr Bid | SwFr Ask | US $ Bid | US $ Ask | Yen Bid | Yen Ask |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 year | 2.70 | 2.73 | 5.36 | 5.39 | 1.22 | 1.26 | 5.26 | 5.29 | 0.19 | 0.22 |
| 2 year | 2.82 | 2.86 | 5.44 | 5.47 | 1.48 | 1.56 | 5.47 | 5.50 | 0.28 | 0.31 |
| 3 year | 3.00 | 3.04 | 5.51 | 5.54 | 1.75 | 1.83 | 5.61 | 5.64 | 0.45 | 0.48 |
| 4 year | 3.20 | 3.24 | 5.50 | 5.54 | 2.00 | 2.08 | 5.70 | 5.73 | 0.66 | 0.69 |
| 5 year | 3.40 | 3.44 | 5.44 | 5.48 | 2.23 | 2.31 | 5.77 | 5.80 | 0.88 | 0.91 |
| 6 year | 3.60 | 3.64 | 5.40 | 5.44 | 2.45 | 2.53 | 5.82 | 5.85 | 1.10 | 1.13 |
| 7 year | 3.79 | 3.83 | 5.38 | 5.42 | 2.65 | 2.73 | 5.88 | 5.91 | 1.30 | 1.33 |
| 8 year | 3.97 | 4.01 | 5.36 | 5.40 | 2.83 | 2.91 | 5.93 | 5.96 | 1.48 | 1.51 |
| 9 year | 4.12 | 4.16 | 5.36 | 5.40 | 3.00 | 3.08 | 5.98 | 6.01 | 1.63 | 1.66 |
| 10 year | 4.23 | 4.27 | 5.36 | 5.40 | 3.15 | 3.23 | 6.02 | 6.05 | 1.77 | 1.80 |
| 12 year | 4.40 | 4.44 | 5.37 | 5.42 | 3.38 | 3.48 | 6.09 | 6.12 | 2.00 | 2.03 |
| 15 year | 4.60 | 4.64 | 5.38 | 5.43 | 3.64 | 3.74 | 6.18 | 6.22 | 2.24 | 2.28 |
| 20 year | 4.84 | 4.88 | 5.38 | 5.43 | 3.89 | 3.99 | 6.27 | 6.30 | 2.43 | 2.47 |
| 25 year | 4.96 | 5.00 | 5.37 | 5.44 | 4.00 | 4.10 | 6.28 | 6.31 | 2.48 | 2.52 |
| 30 year | 5.01 | 5.05 | 5.37 | 5.44 | 4.09 | 4.19 | 6.28 | 6.31 | 2.53 | 2.58 |

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor. £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor. Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Europe Limited.

## US CORPORATE BONDS

| Apr 26 | Red date | Coupon | S & P Rating | Bid price | Bid yield | Day's chge yld | Mth's chge yld | Sprd v Govts |
|---|---|---|---|---|---|---|---|---|
| **UTILITIES** | | | | | | | | |
| Pac Bell | 07/02 | 7.25 | AA- | 104.4975 | 5.67 | -0.02 | -0.08 | +5.67 |
| NY Tel | 08/25 | 7.00 | A+ | 98.3447 | 7.13 | -0.03 | - | +1.58 |
| CWE | 05/08 | 6.00 | BBB | 112.4500 | 6.18 | -0.02 | -0.05 | +0.98 |
| **FINANCIALS** | | | | | | | | |
| GECC | 05/07 | 8.75 | AAA | 117.4385 | 5.98 | -0.03 | - | +0.76 |
| Banc One | 08/02 | 7.25 | A | 104.0000 | 5.84 | -0.02 | -0.02 | +5.84 |
| CNA Fin | 01/18 | 6.95 | A- | 95.1293 | 7.43 | -0.05 | -0.18 | +1.88 |
| **INDUSTRIALS** | | | | | | | | |
| WMX Tech | 04/99 | 6.25 | BBB+ | 100.0000 | 5.39 | -0.14 | -0.38 | +0.91 |
| Wal Mart | 08/02 | 6.75 | AA | 103.5643 | 5.42 | -0.02 | -0.02 | +5.42 |
| Dayton Hud | 08/21 | 9.70 | A- | 132.2446 | 6.84 | -0.04 | -0.06 | +1.27 |
| **AGENCIES** | | | | | | | | |
| FHLMC | 04/07 | 7.14 | N/A | 108.1237 | 5.84 | -0.03 | +0.09 | +0.62 |
| SLMA | 03/00 | 7.50 | N/A | 101.8916 | 5.22 | +0.02 | +0.06 | +0.75 |
| FNMA | 02/18 | 8.95 | N/A | 131.2388 | 6.12 | -0.04 | -0.04 | +0.85 |
| FFCB | 08/08 | 8.56 | N/A | 118.5818 | 5.72 | -0.03 | -0.02 | +0.80 |
| **HIGH YIELD** | | | | | | | | |
| [illegible] | 02/01 | 9.88 | B | 101.7500 | 0.00 | - | - | - |
| AK St | 12/01 | 9.13 | BB- | 106.0000 | 0.00 | - | - | - |
| Pacalta | 08/04 | 10.75 | B- | 111.0000 | 0.00 | - | - | - |

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

## US INTEREST RATES

| Latest | | Treasury Bills and Bond Yields | | | |
|---|---|---|---|---|---|
| Prime rate | 7¾ | One month | - | Two year | 5.05 |
| Broker loan rate | 6½ | Two month | - | Three year | 5.04 |
| Fed funds | 4¾ | Three month | 4.62 | Five year | 5.13 |
| Fed funds at intervention | 4¾ | Six month | 4.62 | 10-year | 5.25 |
| | | One year | 4.71 | 30-year | 5.67 |

## INTERNATIONAL BONDS

| Apr 27 | Red date | Coupon | S & P Rating | Bid price | Bid yld | Day's chge yld | Mth's chge yld | Spread v Govts |
|---|---|---|---|---|---|---|---|---|
| **$** | | | | | | | | |
| EIB | 04/07 | 7.250 | AAA | 108.4620 | 5.89 | -0.05 | +0.05 | +0.72 |
| ABN Amro | 08/07 | 7.125 | AA- | 104.0313 | 6.46 | -0.07 | +0.05 | +1.29 |
| Quebec | 01/07 | 7.000 | A+ | 105.4167 | 6.11 | -0.08 | +0.06 | +0.94 |
| Citicorp FRN | 02/04 | 5.066 | AA- | 99.0931 | 5.28 | -0.08 | +0.08 | +0.18 |
| **C$** | | | | | | | | |
| Bayer L-Bk | 08/04 | 9.500 | AAA | 117.0072 | 5.54 | -0.05 | -0.01 | +0.22 |
| Toronto (M of) | 05/04 | 8.500 | AA+ | 112.9097 | 5.51 | -0.05 | -0.01 | +0.18 |
| Bell Canada | 07/99 | 10.625 | A+ | 101.0212 | 5.23 | -0.02 | -0.13 | +1.27 |
| Deutsche B FRN | 09/02 | 5.875 | AA+ | 100.5260 | 5.70 | -0.03 | +0.08 | +0.54 |
| **£** | | | | | | | | |
| EIB | 12/07 | 7.625 | AAA | 115.3400 | 5.35 | +0.01 | +0.06 | +0.88 |
| Dresdner Bk | 12/07 | 7.750 | AA- | 110.8817 | 6.08 | +0.03 | +0.07 | +1.29 |
| British Gas | 03/00 | 7.625 | A+ | 101.6000 | 5.75 | +0.14 | +0.28 | +0.66 |
| Abbey Nat FRN | 02/02 | 5.587 | AA | [illegible] | 5.18 | +0.04 | +0.29 | +0.20 |
| **SFr** | | | | | | | | |
| EIB | 01/08 | 3.750 | AAA | 103.9485 | 3.22 | -0.04 | - | +0.94 |
| Brit Columbia | 02/02 | 3.250 | AA | 103.9439 | 1.79 | -0.01 | -0.12 | +0.22 |
| Hydro-Quebec | 05/01 | 6.750 | n/a | 108.6910 | 2.37 | - | -0.16 | +1.02 |
| Gen Elect | 09/01 | 1.250 | n/a | 99.7181 | 1.38 | - | -0.14 | +0.01 |
| **YEN** | | | | | | | | |
| IBRD (World Bk) | 03/02 | 5.250 | AAA | 114.1946 | 0.31 | -0.02 | -0.11 | +0.01 |
| Spain (Kingdom) | 03/02 | 5.750 | AA+ | 115.5555 | 0.31 | -0.03 | -0.14 | +0.01 |
| Cred Foncier | 06/02 | 4.750 | A | 112.7143 | 0.80 | -0.03 | -0.11 | +0.50 |
| Italy (Rep of) | 07/99 | 0.207 | AA | 99.9323 | 0.28 | - | +0.18 | +0.08 |
| **A$** | | | | | | | | |
| IBRD (World Bk) | 02/08 | 6.000 | AAA | 103.1734 | 5.53 | -0.05 | -0.18 | +0.20 |
| [illegible] | 05/05 | 6.500 | n/a | 105.1853 | 5.59 | -0.06 | -0.13 | +0.37 |
| S. Aus Gov Fin | 06/03 | 7.750 | AA | 109.0695 | 5.32 | -0.07 | -0.14 | +0.55 |
| GMAC Aust | 05/01 | 9.000 | n/a | 107.1143 | 5.26 | -0.07 | -0.21 | +0.82 |

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

# UK BONDS

## FTSE Actuaries Government Securities

| Price indices UK Gilts | Tue Apr 27 | Day's chge % | Accrued interest | xd adj ytd | Total Return | Duration Yield | Duration Years | % Weight |
|---|---|---|---|---|---|---|---|---|
| 1 Up to 5 years (15) | 120.46 | -0.05 | 2.19 | 2.84 | 1207.71 | 4.95 | 2.27 | 33.77 |
| 2 5-10 years (11) | 185.27 | -0.06 | 3.04 | 2.41 | 1339.14 | 4.77 | 5.79 | 28.60 |
| 3 10-15 years (7) | 183.78 | -0.03 | 2.61 | 3.25 | 1445.60 | 4.68 | 8.56 | 13.85 |
| 4 5-15 years (18) | 173.49 | -0.03 | 2.91 | 2.48 | 1394.43 | 4.73 | 6.57 | 43.24 |
| 5 Over 15 years (4) | 229.06 | -0.21 | 4.37 | 1.25 | 1571.72 | 4.64 | 11.75 | 22.60 |
| 6 Irredeemables (4) | 317.42 | -0.56 | 4.76 | 2.81 | 1654.73 | 4.27 | 21.13 | 0.78 |
| 7 All stocks (41) | 164.70 | -0.09 | 2.92 | 2.54 | 1352.34 | 4.72 | 6.44 | 100.00 |

## UK Indices

| Index-linked | Tue Apr 27 | Day's chge % | Accrued interest | xd adj ytd | Total Return | % Weight |
|---|---|---|---|---|---|---|
| 1 Up to 5 years (2) | 224.54 | -0.11 | 1.64 | 1.26 | 1174.89 | 14.76 |
| 2 Over 5 years (9) | 262.86 | -0.30 | 1.36 | 2.74 | 1431.04 | 85.24 |
| 3 5-15 years (3) | 245.16 | -0.22 | 1.37 | 2.32 | 1328.74 | 42.80 |
| 4 Over 15 years (4) | 279.26 | -0.38 | 1.30 | 3.32 | 1528.14 | 42.44 |
| 5 All stocks (11) | 256.62 | -0.27 | 1.39 | 2.48 | 1304.14 | 100.00 |

| Yield indices | Apr 27 | Apr 26 | Yr ago | Yield indices | Apr 27 | Apr 26 | Yr ago |
|---|---|---|---|---|---|---|---|
| 5 yrs | 4.85 | 4.83 | 6.12 | Irred † | 4.27 | 4.73 | 5.92 |
| 10 yrs | 4.70 | 4.69 | 5.94 | Med. 15 yrs | 4.85 | 4.67 | 5.90 |
| 15 yrs | 4.67 | 4.66 | 5.89 | High 15 yrs | 4.77 | 4.75 | 5.90 |
| 20 yrs | 4.68 | 4.64 | 5.87 | | | | |

Coupon Bands: Medium: 8%-10⅞%; High: 11% and over. † Flat yield. ytd Year to date.

| Real yield | Apr 27 Dur yrs | Inflation 5% Apr 26 | Yr ago | Apr 27 Dur yrs | Inflation 10% Apr 26 | Yr ago |
|---|---|---|---|---|---|---|
| Up to 5 yrs | 3.23 | 2.17 | 3.20 | 2.36 | 3.18 | 2.32 |
| Over 5 yrs | 1.97 | 13.25 | 1.94 | 1.78 | 13.33 | 1.74 |
| 5-15 yrs | 2.01 | 8.58 | 1.98 | 1.73 | 9.62 | 1.70 |
| Over 15 yrs | 1.94 | 16.99 | 1.92 | 1.78 | 17.06 | 1.78 |
| All stocks | 2.02 | 11.68 | 1.99 | 1.78 | 11.81 | 1.76 |

FT Fixed Interest Indices

| | Apr 27 | Apr 26 | Apr 23 | Apr 22 | Apr 21 | Yr ago | High* | Low* |
|---|---|---|---|---|---|---|---|---|
| Govt. Secs. (UK) | 110.39 | 110.79 | 111.05 | 111.00 | 111.56 | 104.29 | 117.17 | 93.31 |
| Fixed Interest | 154.25 | 154.71 | 154.93 | 154.62 | 154.68 | 141.28 | 158.45 | 115.32 |

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## UK GILTS PRICES

| Notes | Yield Int | Yield Red | Price £ | + or - | 52 week High | 52 week Low |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## Other Fixed Interest

| Notes | Yield Int | Yield Red | Price £ | + or - | 52 week High | 52 week Low |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

هكذا من الأصل

# Duisenberg joins move to talk up euro

**MARKETS REPORT**

By Christopher Swann

The euro staged a modest recovery yesterday after a string of European monetary officials moved to counter the market's perception that they were following a policy of benign neglect.

Most notably, Wim Duisenberg, president of the European Central Bank, said he would be concerned if the euro fell further in value, giving his clearest indication to date that he disapproved of its weakening.

Talk of a compromise in Kosovo, fuelled by conciliatory comments from Yugoslavia's deputy prime minister, also helped support the euro.

Against the dollar, the euro firmed to $1.065 by the London close.

The yen drifted slightly lower as hopes faded that Japan was poised to announce a fresh fiscal stimulus package. By the end of London trading it had slid to Y120.2 against the dollar.

■ The supportive comments by a range of European officials yesterday added to the impression of a concerted verbal campaign to support the euro.

Dominique Strauss-Kahn, France's finance minister, once again weighed into the debate by denying that the euro-zone was pursuing a policy of benign neglect. Meanwhile Yves-Thibault de Silguy, the commissioner for monetary affairs, and French central bank governor Jean-Claude Trichet suggested there was scope for a rise in the currency.

But analysts were sceptical that the jawboning would lead to a sustained rise. "There are few data out of the euro-zone to challenge the perception of chronic economic weakness," said Paul Meggyesi, currency strategist at Deutsche Bank in London.

Mark Cliffe, chief European economist at ING Barings, said stronger than expected French consumption data had been offset by a downgrading of German growth forecasts by the country's six leading research institutes.

■ Option volatilities dipped further yesterday as traders prepared for the traditional lull surrounding Japan's "golden week" holiday.

One-month dollar-yen volatilities, trading at 14 per cent at the start of last week, lurched down from 13 to 12 per cent yesterday.

Paul Meggyesi said both volumes and volatility in the market would diminish as Japanese investors withdrew to the sidelines.

He added that a broad decline in volatilities was also symptomatic of a return to normality after recent emerging market turmoil.

Kit Juckes, chief strategist at NatWest GFM in London, argued that the yen stability against the dollar could increase the attraction of carry trades. "The recent reduction in volatility is liable to make foreign assets irresistible and could portend the next spike up in dollar-yen," he said.

■ The Brazilian Real yesterday survived the latest twist in a foreign exchange scandal which some feared could undermine confidence in its nascent recovery.

Francisco Lopes, president of Brazil's central bank for three weeks during January's currency crisis, was arrested after refusing to give evidence in front of a Senate committee investigating allegations of corruption at the bank.

Senators are investigating charges that officials leaked details of economic policy to private banks during the currency crisis.

The muted reaction of the Real, said Kit Juckes, reflected a surplus of global liquidity. The Real, which has climbed back from a record low of R$2.17 against the dollar over the past few months, was largely unmoved around R$1.70 yesterday.

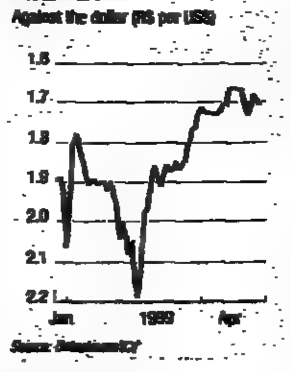
■ Asian currencies continued to firm yesterday as regional stock markets turned in another robust performance.

Korea's KOSPI equity index surged beyond its pre-crisis high, causing the won to inch up to Won1,183 against the dollar. Capital inflows also helped the Singapore dollar hold on to most of its recent gains.

But analysts said that gains would be capped by concern monetary authorities would step in to prevent a loss of competitiveness.

**Brazilian real**

Against the dollar (R$ per US$)




Source: Datastream/ICV

## ■ POUND IN NEW YORK

| Apr 27 | —Latest— | — Prev. close — |
|---|---|---|
| £ spot | 1.6175 | 1.6120 |
| 1 mth | 1.6170 | 1.6114 |
| 3 mth | 1.6163 | 1.6108 |
| 1 yr | 1.6109 | 1.6115 |

## ■ OTHER CURRENCIES

| Apr 27 | £ | $ |
|---|---|---|
| Czech | [illegible] | [illegible] |
| Hungary | [illegible] | [illegible] |
| Iran | [illegible] | [illegible] |
| Kuwait | [illegible] | [illegible] |
| Poland | [illegible] | [illegible] |
| Russia | [illegible] | [illegible] |
| UAE | [illegible] | [illegible] |

## WORLD INTEREST RATES

### MONEY RATES

| Apr 27 | Over night | One month | Three mths | Six mths | One year | Lomb. inter. | Dis. rate | Repo rate |
|---|---|---|---|---|---|---|---|---|
| Euro-zone | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 2.50 | 3.00 |
| Switzerland | [illegible] | [illegible] | [illegible] | 1 | [illegible] | - | 1.00 | - |
| US | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 4.50 | - |
| Japan | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 0.50 | - |
| ■ $ LIBOR BBA London | | | | | | | | |
| Interbank Fixing | - | [illegible] | 5 | [illegible] | [illegible] | - | - | - |
| US Dollar CDs | - | 4.75 | 4.78 | 4.81 | 4.96 | - | - | - |
| Euro Linked Ds | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| SDR Linked Ds | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| BBA Euro Libor | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| Euro Euribor | - | 2.573 | 2.590 | 2.608 | 2.677 | - | - | - |
| EONIA | 2.53 | - | - | - | - | - | - | - |
| EURONIA | 2.5253 | - | - | - | - | - | - | - |

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

### INTERNATIONAL CURRENCY RATES

| Apr 27 | Short term | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Euro | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Danish Krone | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sterling | [illegible] - 5 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Swiss Franc | 1 - [illegible] | [illegible] - 1 | [illegible] | [illegible] | [illegible] | [illegible] |
| Canadian Dollar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| US Dollar | [illegible] | [illegible] | [illegible] | [illegible] | 5 - [illegible] | [illegible] |
| Japanese Yen | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Asian $Sing | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EUROMARK FUTURES (MATIF) / ■ THREE MONTH EURIBOR FUTURES (LIFFE) / ■ THREE MONTH EURO LIBOR FUTURES (LIFFE) / ■ EURIBOR OPTIONS (LIFFE) / ■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) / ■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) / ■ THREE MONTH EUROYEN FUTURES (LIFFE)

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100-rate

| Strike Price | CALLS Jun | CALLS Sep | CALLS Dec | PUTS Jun | PUTS Sep | PUTS Dec |
|---|---|---|---|---|---|---|
| 99000 | 0.065 | 0.100 | 0.065 | 0.115 | 0.240 | 0.505 |
| 99125 | 0.040 | | | 0.215 | | |

Est. vol. total, Calls 100 Puts 100. Previous day's open int., Calls 6520 Puts 5823

## POUND SPOT FORWARD AGAINST THE POUND

| Apr 27 | | Closing mid-point | Change on day | Bid/offer spread | Day's Mid high | Day's Mid low | One month Rate | One month %PA | Three months Rate | Three months %PA | One year Rate | One year %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Apr 27 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | Day's mid low | One month Rate | One month %PA | Three months Rate | Three months %PA | One year Rate | One year %PA | J.P. Morgan Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

| Apr 27 | | BFr | DKr | FFr | DM | I£ | L | Fl | NKr | Es | Pta | SKr | SFr | £ | C$ | $ | Y | € |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

■ D-MARK FUTURES (CME) DM 125,000 per DM

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 0.5430 | 0.5457 | +0.0027 | 0.5459 | 0.5446 | 2,887 | 34,502 |
| Sep | 0.5487 | 0.5487 | +0.0025 | 0.5487 | 0.5487 | 4 | 1,282 |
| Dec | 0.5523 | 0.5522 | +0.0028 | 0.5523 | 0.5523 | 6 | 158 |

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 0.6639 | 0.6658 | +0.0018 | 0.6684 | 0.6640 | 5,920 | 67,377 |
| Sep | 0.6727 | 0.6724 | +0.0017 | 0.6727 | 0.6724 | - | 322 |
| Dec | - | - | - | - | - | - | 14 |

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100 / ■ STERLING FUTURES (CME) £62,500 per £

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## UK INTEREST RATES

### LONDON MONEY RATES

| Apr 27 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | [illegible] | [illegible] - 5 | [illegible] | [illegible] | [illegible] | [illegible] |
| Sterling CDs | - | - | [illegible] | [illegible] | - | - |
| Treasury Bills | - | - | [illegible] | 5 - [illegible] | - | - |
| Bank Bills | - | - | [illegible] | [illegible] | - | - |
| Local authority deps. | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] - 5 | [illegible] |
| Discount Market deps | [illegible] | [illegible] | - | - | - | - |

UK clearing bank base lending rate 5¼ per cent from Apr 8, 1999

| | Up to 1 month | 1-3 months | 3-6 months | 6-9 months | 9-12 months |
|---|---|---|---|---|---|
| Certs of Tax dep. (£100,000) | 4 | 6.5 | 6.5 | 6.25 | 6.25 |

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Apr 23, 4.9035pc. ECGD fixed rate Stg. Export Finance. Make up day Mar 31, 1999. Agreed rate for period Apr 26, 1999 to May 25, 1999, Scheme III 6.65pc. Reference rate for period Feb 27, 1999 to Mar 31, 1999, Schemes IV & V 5.410pc. Finance House Base Rate 5.5pc for Apr 1999.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 94.850 | 94.810 | -0.040 | 94.880 | 94.790 | 31438 | 183865 |
| Sep | 94.890 | 94.840 | -0.040 | 94.910 | 94.820 | 49489 | [illegible] |
| Dec | 94.640 | 94.600 | -0.040 | 94.680 | 94.580 | 20041 | 148747 |
| Mar | [illegible] | 94.620 | -0.030 | 94.680 | 94.600 | 23779 | 140892 |
| Jun | 94.560 | 94.515 | -0.025 | 94.580 | 94.510 | 15814 | 114716 |

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

| Strike Price | CALLS Jun | CALLS Sep | CALLS Dec | PUTS Jun | PUTS Sep | PUTS Dec |
|---|---|---|---|---|---|---|
| 94750 | 0.110 | 0.205 | 0.265 | 0.050 | 0.115 | 0.355 |
| 94875 | 0.050 | | | 0.115 | | |
| 95000 | 0.020 | 0.098 | 0.115 | 0.210 | 0.250 | 0.515 |
| 95125 | 0.010 | | | 0.325 | | |
| 95250 | 0.005 | 0.030 | 0.080 | 0.445 | 0.440 | 0.710 |
| 95375 | 0 | | | 0.565 | | |

Est. vol. total, Calls 51537 Puts 4168. Previous day's open int., Calls 481743 Puts 585103

### EMS EUROPEAN CURRENCY UNIT RATES

| Apr 27 | Euro central rates | Rate against Euro € | Change on day | % +/- from cen. rate | % spread v weakest | Div. ind. |
|---|---|---|---|---|---|---|
| Greece | 353.109 | 325.70 | -0.7 | -7.76 | 8.04 | 22 |
| Denmark | 7.46038 | 7.4345 | +0.0011 | -0.35 | 0.09 | 2 |
| NON ERM MEMBERS | | | | | | |
| UK | 0.785644 | 0.65870 | +0.0018 | 0.77 | -1.11 | - |

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

| Strike Price | CALLS May | CALLS Jun | CALLS Jul | PUTS May | PUTS Jun | PUTS Jul |
|---|---|---|---|---|---|---|
| 1.600 | 1.85 | 2.15 | 2.70 | 0.45 | 1.08 | 1.64 |
| 1.610 | 1.03 | 1.59 | 2.21 | 0.80 | 1.44 | 2.08 |
| 1.620 | [illegible] | [illegible] | 1.75 | 1.44 | 2.00 | 2.59 |

Previous day's vol., Calls - Puts - . Prev. day's open int., Calls [illegible] Puts [illegible]

■ PHILADELPHIA SE D-MARK OPTIONS DM62,500 (cents per DM)

| Strike Price | CALLS May | CALLS Jun | CALLS Jul | PUTS May | PUTS Jun | PUTS Jul |
|---|---|---|---|---|---|---|
| 0.540 | 0.51 | 0.83 | 1.12 | 0.35 | 0.58 | 0.75 |
| 0.545 | 0.29 | 0.58 | 0.88 | 0.60 | 0.82 | 1.00 |
| 0.550 | 0.17 | 0.41 | 0.65 | 0.98 | 1.15 | 1.39 |

Previous day's vol., Calls - Puts - , Prev. day's open int., Calls 168 Puts 385

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 95.00 | 95.00 | - | - | - | 28,584 | 457,321 |
| Sep | 94.89 | 94.89 | -0.01 | - | - | 61,046 | 527,141 |
| Dec | 94.61 | - | - | - | - | 25,839 | 395,780 |

■ US TREASURY BILL FUTURES (CME) $1m per 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 95.54 | - | - | 95.64 | 95.64 | 223 | 1,576 |

## BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| Adam & Company | 5.25 | Exeter Trust Limited | 6.25 | Smith & Williamson | 5.25 |
| Allied Irish Bank (GB) | 5.25 | ●Robert Fleming & Co | 5.25 | Sun Bank | 5.25 |
| ●Henry Ansbacher | 5.25 | Habib Bank AG Zurich | 5.25 | TSB | 5.25 |
| Banco Bilbao Vizcaya | 5.25 | Heritable & Gen Inv Bk | 5.25 | United Bank of Kuwait | 5.25 |
| Bank of Cyprus | 5.25 | C. Hoare & Co | 5.25 | Unity Trust Bank Plc | 5.25 |
| Bank of Ireland | 5.25 | ●SG Hambros Bank & Trust | 5.25 | Whiteaway Laidlaw | 5.25 |
| Bank of India | 5.25 | Hongkong & Shanghai | 5.25 | Yorkshire Bank | 5.25 |
| Bank of Scotland | 5.25 | Investec Bank (UK) Ltd | 5.25 | | |
| Barclays Bank | 5.25 | Julian Hodge Bank | 5.25 | | |
| Brit Bk of Mid East | 5.25 | ●Leopold Joseph & Sons | 5.25 | | |
| ●Brown Shipley & Co Ltd | 5.25 | Lloyds Bank | 5.25 | | |
| Citibank NA | 5.25 | Midland Bank | 5.25 | | |
| Clydesdale Bank | 5.25 | NatWestminster | 5.25 | | |
| The Co-operative Bank | 5.50 | ●Rea Brothers | 5.25 | | |
| Coutts & Co | 5.25 | Royal Bk of Scotland | 5.25 | | |
| Cyprus Popular Bank | 5.25 | Scottish Widows Bank | 5.50 | | |
| Duncan Lawrie | 5.25 | ●Singer & Friedlander | 5.25 | | |

● Members of London Investment Banking Association

## COMMODITIES & AGRICULTURE

**DAIRY INDUSTRY** ENTITY WOULD EXPORT 800 PRODUCTS TO 115 COUNTRIES AND HAVE SALES OF NZ$7.7BN

# NZ farmers back 'mega company'

**By Terry Hall in Wellington**

New Zealand farmers, unhappy with falling incomes, are behind moves to create an organisation combining the global marketing expertise of the New Zealand Dairy Board and the manufacturing capacity of the country's independent processing plants.

The company would have sales of more than NZ$7.7bn (US$4.2bn) and a string of manufacturing plants in New Zealand and abroad estimated to be worth NZ$7bn.

The combined entity would export 800 dairy products to 115 countries and own 60 subsidiaries, including Anchor in the UK and Fernleaf in other parts of the world.

Formation of the company is possible because of the co-operative structure of the New Zealand industry.

Local dairy farmers currently own shares in their own processing plants which in turn control the joint marketing arm of the Dairy Board.

Until now, however, regional rivalry – as well as parliamentary statutes and anti-monopoly legislation through the Commerce Act – have ruled out a merger.

This changed earlier this month with the surprise decision of the biggest North Island organisation, the New Zealand Dairy Group to merge with the South Island Dairy Group, in a move that is being investigated by the Commerce Commission.

If allowed, the combined group would control 60 per cent of all New Zealand dairy output – and have the numbers to control the dairy board as well.

However, the merger is being contested by the third biggest company, Kiwi Dairies. It is proposing that it and the remaining nine independent co-operatives should amalgamate with the NZDG-SIDG group and the New Zealand Dairy Board to form a single giant dairy company.

This proposal appears to have the support of the government and most farmers, who are concerned about their falling incomes resulting from lower prices for commodity dairy products, such as milk powder.

Supporters of the "mega dairy company" concept say it would bring considerable efficiencies and streamline marketing efforts, as each of the companies currently has its own sales force.

The government is also keen on the concept as it would require the dairy industry to surrender its export monopoly, and allow international companies to set up in competition with the co-operative movement within New Zealand.

The industry is pushing ahead with a series of meetings to approve the concept by June 1, fearful that if a Labour government is elected later this year it would block the plan on monopoly grounds.

Providing a consensus is reached and the support of the 10 dairy companies is secured, the proposal could be ready in time for the government to put the required legislation before Parliament relatively quickly.

This would also involve passing the Commerce Act.

Most farmers appear keen on the idea – although there is strong support for retaining the co-operative structure.

Farmers are concerned that the "mega company" should not list its shares on the stock exchange for fear that a multinational company might mount a takeover.

Murray Gough, the former chief executive of the Dairy Board, says New Zealanders should not fear the creation of the giant company.

"While it would be big in local terms, it has to be viewed from an international perspective," he says.

Mr Gough says some 95 per cent of the country's dairy production is exported but that in global terms New Zealand is a small operator.

"It's true that we have around 30 per cent of the global trade in dairy goods. But that accounts for just 5 per cent of international consumption of dairy products," he says.

"Even when the country's dairy manufacturing and marketing businesses are combined, we'll still be a modest player compared with industry giants like Nestlé, which not only trade internationally but hold major slices of key domestic markets," says Mr Gough.

# Sugar and cocoa sink to new lows

**MARKETS REPORT**

**By Paul Solman and Gillian O'Connor**

Cocoa and sugar futures sank again yesterday in London, continuing a trend that has seen both commodities establish historic lows in recent weeks.

August white sugar set a new record low of $164 a tonne in late trading on the London International Financial Futures and Options Exchange, against Monday's close of $168.80.

Analysts said the outlook remained bleak, with reports that Thailand was raising exports to a new record in an already heavily oversupplied market.

July cocoa set a new six-year low, closing down £22 at £691 a tonne.

Robusta coffee was also weaker, with prices remaining at around their lowest for two years. The July contract finished down $17 at $1,413 a tonne.

Zinc took the lead in a better day for base metals on the London Metal Exchange yesterday. In unofficial afternoon dealing the price at one point touched $1,091 per tonne, as funds bought in anticipation of a short-term supply squeeze.

The metal has long enjoyed relatively strong fundamentals. Western world production is below the level of demand, and although Chinese exports normally plug the gap, they can be hard to predict.

The gold price vacillated in response to further statements about IMF gold sales. The afternoon fix was slightly lower at $281.05 per ounce, but the price strengthened later.

Crude oil prices drifted in quiet trading. Brent blend for June delivery was $15.66 a barrel in late trading against Monday's close of $15.70.

# Thai rubber exports fall

**By Paul Solman**

Thailand's exports of natural rubber fell by almost a third in the first two months of this year. The world's largest producer of natural rubber said yesterday it had exported 277,700 tonnes in January and February, 28 per cent below the 387,300 tonnes it sold during the same period last year.

The figures came just days after rubber producers and consumers meeting in Kuala Lumpur failed to agree on a formula to secure the future of the International Natural Rubber Organisation (Inro).

Inro, the last surviving commodity price support pact outside the oil industry, is on the verge of collapse because Thailand and Malaysia, two of its most important members, have announced they will quit.

Thailand's export figures revealed that Japan, the US, China and South Korea, the biggest rubber consumers, had each bought less from Thailand compared with last year. In the case of China, its imports of Thai rubber fell more than 70 per cent.

Slowing demand from the motor vehicle industry, especially in Asia, has been blamed for slow growth in rubber consumption, which grew by 2 per cent last year against 6 per cent in 1997.

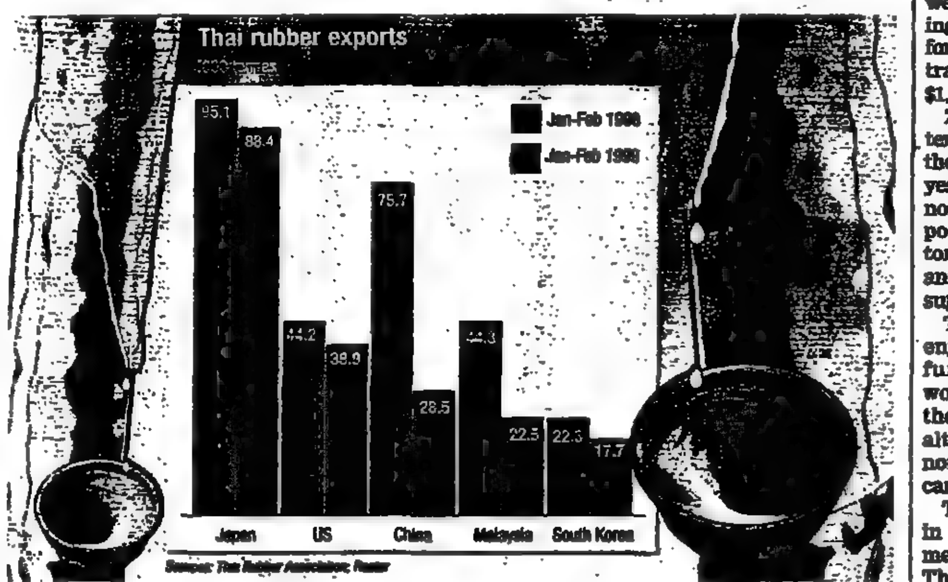
However, industry insiders said Thailand's lower export figures could also stem from the country's moves to support its domestic market.

The Thai government has begun to buy rubber from domestic producers in an effort to boost prices. Producers are suffering as international prices have fallen to historic lows.

The government decided to act after losing confidence in Inro, which is charged with supporting prices by intervening in the market. As prices have fallen, Thailand has become increasingly critical of Inro's activities.

Last week's Kuala Lumpur summit was intended to agree reforms that would convince Thailand and Malaysia to remain within Inro, but the meeting ended without a deal.

Malaysia, the world's third largest rubber producer has also outlined plans to support domestic prices.




## NEWS DIGEST

**HORTICULTURE**

### Imported rose infection may hit Kenyan exports

Kenya's flower exports could fall as much as 10–20 per cent below their potential this year due to rose infection from an imported agrobacterium, the Kenya Agricultural Research Institute (KARI) has warned.

Cyrus Ndiritu, KARI director, said that although infected imports – which he claimed stemmed from a single nursery in Israel – had been stopped 1½ years ago. "The economic crunch is happening now," he said. "If you have five proven infected farms, from 20 to 30 big growers, you are looking at 10 to 20 per cent infection, which could reduce export volumes by 10 to 20 per cent," said Mr Ndiritu. "Some farmers have lost very badly."

The news is a setback to Kenya's otherwise successful horticulture industry, which is the country's third largest foreign exchange earner after tea and tourism. According to the Kenya Flower Council, it exported Ks4.86bn ($73.7m) worth of flowers last year, of which Ks3.36bn worth were roses. Kenya is Africa's largest exporter of flowers, and its main markets are the Netherlands, the UK and Germany.

Mike Morland, head of the Kenya Flower Council, said the worst of the disease was over, and was sceptical that the industry would lose even 10 per cent of exports. He did not see a big risk of the disease spreading, and strongly contested local press reports that total losses would reach more than Ks1bn. **Mark Turner, Nairobi**

**MINING**

### TVX Gold 'to benefit' Normandy

Australia's Normandy Mining is set to benefit most from a new partnership with struggling Canadian TVX Gold, say analysts. Normandy, with a market capitalisation of around US$1.4bn, is paying TVX US$180m for a 49.9 per cent share in a joint venture, to be called TVX Normandy Americas, whose assets will comprise the five TVX gold interests in the Americas (three in Latin America, two in Canada).

TVX had a market capitalisation of only US$175m after the deal was announced yesterday. It retains a 50.1 per cent interest in the new company, and all its Greek interests, and gets a further US$150m of development finance from cash-rich Normandy.

TVX has been looking for a financial partner to enable it to develop its Greek interests for some time, but recently rejected a bid for the whole company from Cambior, another medium-sized Canadian company. The Normandy deal leaves the company independent and essentially gives it the resources to develop its new interests at a cost below that of the mature ones.

Robert Champion de Crespigny, Normandy's chairman, has long wanted to increase the non-Australian proportion of the company's business. The TVX deal should bring the proportion up to 25 per cent, and he sees it as a launch pad for further development in Latin America. "Normandy has to be big to survive," he said. Some analysts argued that he could have bought the whole of TVX for the same US$180m cash outlay.

**Gillian O'Connor, London and Gwen Robinson, Sydney**

## COMMODITIES PRICES

### BASE METALS

**LONDON METAL EXCHANGE**

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1301-03 | 1325-27 |
| Previous | 1291-2 | 1314-5 |
| High/low | | 1332/1304 |
| AM Official | 1283-4 | 1308-9 |
| Kerb close | | 1330-31 |
| Open int. | 300,863 | |
| Total daily turnover | 64,609 | |

■ ALUMINIUM ALLOY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1183-88 | 1203-05 |
| Previous | 1170-5 | 1191-3 |
| High/low | | 1207/1182 |
| AM Official | 1171-2 | 1192-5 |
| Kerb close | | 1207-10 |
| Open int. | 9,291 | |
| Total daily turnover | 2,010 | |

■ LEAD ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 532.5-3.5 | 540-1 |
| Previous | 527.5-8.5 | 534-5 |
| High/low | | 542/534 |
| AM Official | 528-8.5 | 535-5.5 |
| Kerb close | | 539-40 |
| Open int. | 40,097 | |
| Total daily turnover | 11,035 | |

■ NICKEL ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 5240-50 | 5320-25 |
| Previous | 5166-76 | 5245-50 |
| High/low | | 5325/5225 |
| AM Official | 5206-10 | 5275-80 |
| Kerb close | | 5310-15 |
| Open int. | 70,352 | |
| Total daily turnover | 13,119 | |

■ TIN ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 5425-35 | 5460-65 |
| Previous | 5440-50 | 5475-80 |
| High/low | | 5470/5445 |
| AM Official | 5430-35 | 5460-65 |
| Kerb close | | 5460-70 |
| Open int. | 20,972 | |
| Total daily turnover | 7,697 | |

■ ZINC, special high grade ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1087-88 | 1095.5-96 |
| Previous | 1045-6 | 1064-5 |
| High/low | | 1091/1063 |
| AM Official | 1060-1 | 1078.5-9.0 |
| Kerb close | | 1087.5-88 |
| Open int. | 92,923 | |
| Total daily turnover | 54,382 | |

■ COPPER, grade A ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1521.5-22.5 | 1552-53 |
| Previous | 1513-4 | 1543-4 |
| High/low | | 1558/1527 |
| AM Official | 1504.5-5.5 | 1535-7 |
| Kerb close | | 1552-53 |
| Open int. | 185,140 | |
| Total daily turnover | 61,079 | |

■ LME AM Official £/$ rate: 1.6125
LME Closing £/$ rate: 1.6160
Spot: 1.6178 3 mths: 1.6157 6 mths: 1.6157 9 mths: 1.6172

■ HIGH GRADE COPPER (COMEX)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 69.50 | +0.35 | 69.65 | 68.85 | 185 | 383 |
| May | 69.50 | +0.25 | 70.00 | 68.70 | 6,665 | 15,717 |
| Jun | 70.10 | +0.25 | 70.30 | 69.50 | 182 | 2,536 |
| Jul | 70.55 | +0.25 | 71.00 | 69.50 | 8,939 | 33,645 |
| Aug | 70.95 | +0.30 | 70.90 | 70.90 | 41 | 1,595 |
| Sep | 71.35 | +0.35 | 71.60 | 70.80 | 267 | 5,791 |
| Total | | | | | 16,442 | 74,051 |

### PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

| Gold(troy oz) | $ price | £ equiv | SFr equiv |
|---|---|---|---|
| Close | 281.70-282.20 | | |
| Opening | 281.40-281.70 | | |
| Morning fix | 281.50 | 174.55 | 284.69 |
| Afternoon fix | 281.05 | 173.99 | 284.39 |
| Day's High | 282.40-282.70 | | |
| Day's Low | 280.40-280.70 | | |
| Previous close | 282.20-282.70 | | |

Loco Ldn Mean Gold Lending Rates (Vs US$)

| | | | |
|---|---|---|---|
| 1 month | 4.22 | 6 months | 4.10 |
| 2 months | 4.18 | 12 months | 3.72 |
| 3 months | 4.16 | | |

| Silver Fix | p/troy oz. | US cts equiv. |
|---|---|---|
| Spot | 316.03 | 509.75 |

Silver Lending Rates

| | | | |
|---|---|---|---|
| 1 month | 2.40 | 6 months | 1.30 |
| 2 months | 2.00 | 12 months | 0.50 |
| 3 months | 1.65 | | |

| Gold Coins | $ price | £ equiv. |
|---|---|---|
| Krugerrand | 286-289 | 176-179 |
| New Sovereign | 67-71 | 41-44 |

### Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 282.3 | +1.0 | 282.3 | 281.6 | 7 | 72 |
| May | 282.3 | +0.8 | | | - | 47 |
| Jun | 283.5 | +0.9 | 283.9 | 281.6 | 36,130 | 132.4k |
| Aug | 285.4 | +0.9 | 285.9 | 283.8 | 646 | 10,672 |
| Oct | 287.4 | +0.8 | - | - | 30 | 4,298 |
| Dec | 289.3 | +0.9 | 289.8 | 288.2 | 180 | 15,907 |
| Total | | | | | 36,880 | 284,807 |

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 356.5 | +2.3 | 356.5 | 356.5 | 6 | - |
| Jul | 356.5 | +1.3 | 357.1 | 353.5 | 1,683 | 9,711 |
| Oct | 357.0 | +1.1 | 357.8 | 356.0 | 133 | 1,682 |
| Jan | 357.7 | +1.1 | - | - | 6 | 140 |
| Total | | | | | 1,829 | 11,836 |

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jun | 351.00 | +1.25 | 354.00 | 350.00 | 442 | 2,581 |
| Sep | 346.00 | +1.25 | 350.00 | 346.00 | 6 | 294 |
| Dec | 341.00 | +1.25 | - | - | - | 126 |
| Mar | 338.00 | +1.25 | - | - | - | 15 |
| Total | | | | | 448 | 3,016 |

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 518.9 | +8.0 | - | - | 20 | 34 |
| May | 518.3 | +8.2 | 519.0 | 508.5 | 11,801 | 22,073 |
| Jul | 519.6 | +7.8 | 520.0 | 510.6 | 6,867 | 34,770 |
| Sep | 521.5 | +7.8 | 521.5 | 514.5 | 88 | 9,462 |
| Dec | 523.2 | +7.8 | 524.0 | 516.6 | 321 | 10,991 |
| Jan | 522.6 | +7.8 | - | 513.0 | - | 16 |
| Total | | | | | 19,384 | 83,742 |

### ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jun | 17.69 | +0.03 | 17.78 | 17.55 | 58,356 | 173.9k |
| Jul | 17.46 | +0.03 | 17.53 | 17.35 | 18,739 | 83,806 |
| Aug | 17.22 | +0.04 | 17.28 | 17.12 | 6,697 | 45,702 |
| Sep | 16.97 | +0.02 | 17.04 | 16.91 | 5,751 | 24,227 |
| Oct | 16.74 | -0.02 | 16.80 | 16.70 | 1,341 | 23,990 |
| Nov | 16.63 | +0.05 | 16.63 | 16.60 | 1,434 | 24,583 |
| Total | | | | | 103,221 | 592,680 |

■ CRUDE OIL IPE ($/barrel)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jun | 15.66 | -0.04 | 15.72 | 15.56 | 20,940 | 102.2k |
| Jul | 15.60 | - | 15.65 | 15.40 | 8,671 | 54,358 |
| Aug | 15.34 | -0.01 | 15.40 | 15.26 | 1,312 | 25,924 |
| Sep | 15.22 | - | 15.28 | 15.14 | 184 | 15,920 |
| Oct | 15.08 | - | 15.15 | 15.05 | 43 | 8,284 |
| Nov | 15.03 | -0.01 | 15.03 | 14.89 | 37 | 5,923 |
| Total | | | | | n/a | n/a |

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 43.00 | +0.25 | 43.15 | 42.60 | 13,450 | 22,776 |
| Jun | 43.35 | +0.28 | 43.50 | 42.95 | 8,090 | 37,760 |
| Jul | 43.95 | +0.28 | 43.85 | 43.45 | 2,570 | 20,801 |
| Aug | 44.40 | +0.33 | 44.40 | 43.95 | 1,267 | 18,931 |
| Sep | 44.90 | +0.13 | 44.95 | 44.80 | 1,834 | 9,875 |
| Oct | 45.70 | +0.23 | 45.70 | 45.60 | 53 | 6,543 |
| Total | | | | | 34,647 | 176,979 |

■ GAS OIL IPE ($/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 126.75 | +0.25 | 129.25 | 127.50 | 6,143 | 34,660 |
| Jun | 130.50 | - | 130.75 | 129.25 | 3,650 | 27,175 |
| Jul | 131.75 | +0.25 | 132.25 | 131.00 | 2,394 | 13,644 |
| Aug | 133.25 | +0.25 | 133.50 | 132.50 | 1,241 | 8,597 |
| Sep | 135.25 | +0.50 | 135.50 | 134.50 | 1,090 | 7,560 |
| Oct | 137.00 | +0.25 | 137.00 | 136.00 | 197 | 4,240 |
| Total | | | | | 26,517 | 146,611 |

■ NATURAL GAS IPE (1,000 therms per day)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 9.250 | +0.020 | 9.270 | 9.250 | 160 | 1,650 |
| Jun | 9.250 | +0.020 | 9.260 | 9.250 | 90 | 1,615 |
| Total | | | | | | n/a |

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jun | 2.340 | +0.041 | 2.349 | 2.305 | 56,802 | 37,782 |
| Jul | 2.360 | +0.035 | 2.360 | 2.320 | 32,659 | 64,409 |
| Aug | 2.365 | +0.027 | 2.375 | 2.340 | 7,276 | 27,238 |
| Sep | 2.375 | +0.020 | 2.380 | 2.348 | 3,476 | 19,999 |
| Oct | 2.380 | +0.024 | 2.389 | 2.360 | 2,994 | 33,021 |
| Nov | 2.395 | +0.029 | 2.400 | 2.365 | 2,993 | 17,425 |
| Total | | | | | 116,793 | 347,561 |

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 53.00 | +0.61 | 53.10 | 52.20 | 18,218 | 21,448 |
| Jun | 53.05 | +0.42 | 53.35 | 52.50 | 12,988 | 35,488 |
| Jul | 52.65 | +0.12 | 53.20 | 52.55 | 3,057 | 26,468 |
| Aug | 52.40 | +0.07 | 52.50 | 52.25 | 1,838 | 6,601 |
| Sep | 51.53 | - | - | - | 621 | 5,601 |
| Oct | 49.90 | -0.03 | 49.90 | 49.90 | 37 | 2,381 |
| Total | | | | | 38,104 | 110,966 |

### GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 76.60 | -0.40 | 76.50 | 76.25 | 112 | 1,249 |
| Jul | 77.70 | -0.60 | 77.70 | 77.25 | 48 | 2,946 |
| Sep | 75.25 | -0.75 | - | - | - | 108 |
| Nov | 77.25 | -0.75 | 77.50 | 77.00 | 25 | 3,342 |
| Jan | 78.50 | -0.50 | 79.60 | 78.75 | 25 | 877 |
| Mar | 80.60 | [illegible] | - | - | - | [illegible] |
| Total | | | | | 276 | 8,846 |

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 249.50 | -3.25 | 256.50 | 249.00 | 23,915 | 19,289 |
| Jul | 260.00 | -3.00 | 267.00 | 259.50 | 11,167 | 67,540 |
| Sep | 270.25 | -3.25 | 276.75 | 270.00 | 996 | 7,398 |
| Dec | 284.25 | -3.25 | 290.50 | 283.50 | 1,086 | 16,056 |
| Mar | 294.00 | -3.50 | 299.50 | 294.00 | 138 | 4,245 |
| May | 301.00 | -2.50 | - | - | 2 | 21 |
| Total | | | | | 36,130 | 117,283 |

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 215.25 | -1.00 | 218.00 | 215.00 | 26,096 | 58,450 |
| Jul | 219.75 | -1.75 | 223.50 | 219.50 | 36,182 | 133,689 |
| Sep | 228.00 | -2.00 | 229.00 | 224.75 | 3,736 | 30,106 |
| Dec | 236.25 | -2.50 | 237.25 | 232.00 | 15,336 | 96,717 |
| Mar | 241.50 | -2.75 | 245.50 | 241.25 | 886 | 15,252 |
| May | 246.00 | -2.50 | 249.25 | 246.00 | 12 | 1,632 |
| Total | | | | | 81,105 | 341,280 |

■ BARLEY LIFFE (100 tonnes; £ per tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 74.50 | -0.25 | 75.05 | 74.25 | 16 | 70 |
| Sep | 73.50 | +0.50 | - | - | - | 45 |
| Nov | 75.25 | +0.25 | 75.25 | 75.00 | 57 | 482 |
| Jan | 77.25 | -0.25 | - | - | - | 20 |
| Mar | 79.25 | +0.25 | - | - | - | - |
| Total | | | | | 72 | 597 |

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 478.00 | -3.00 | 484.50 | 477.00 | 9,183 | 31,420 |
| Jul | 487.75 | -2.75 | 494.00 | 486.50 | 22,983 | 63,382 |
| Aug | 490.50 | -2.25 | 497.50 | 490.00 | 820 | 16,732 |
| Sep | 493.50 | -2.00 | 500.25 | 482.50 | 224 | 8,902 |
| Nov | 501.50 | -3.00 | 508.00 | 500.00 | 5,677 | 43,384 |
| Jan | 512.50 | -2.00 | 518.00 | 516.00 | 187 | 2,757 |
| Total | | | | | 38,846 | 169,606 |

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 19.51 | -0.25 | 20.04 | 19.50 | 7,728 | 17,327 |
| Jul | 19.89 | -0.17 | 20.37 | 19.83 | 10,762 | 51,129 |
| Aug | 20.03 | -0.16 | 20.50 | 20.00 | 950 | 9,947 |
| Sep | 20.16 | -0.16 | 20.63 | 20.00 | 192 | 8,821 |
| Oct | 20.28 | -0.15 | 20.70 | 20.15 | 95 | 6,344 |
| Dec | 20.52 | -0.21 | 21.00 | 20.42 | 1,329 | 25,792 |
| Total | | | | | 21,081 | 134,320 |

■ SOYABEAN MEAL CBT (100 tons; $/ton)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 128.9 | -1.1 | 130.8 | 128.7 | 11,985 | 24,025 |
| Jul | 130.9 | -0.9 | 132.4 | 130.6 | 12,948 | 40,277 |
| Aug | 132.2 | -0.9 | 133.7 | 132.0 | 713 | 12,526 |
| Sep | 133.6 | -1.1 | [illegible] | 133.3 | 873 | 9,913 |
| Oct | 135.0 | -0.8 | 136.3 | 134.7 | 382 | 5,734 |
| Dec | 138.0 | -0.9 | 139.5 | 137.8 | 2,161 | 17,802 |
| Total | | | | | 29,502 | 112,206 |

■ POTATOES LIFFE (20 tonnes; £ per tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 170.0 | - | - | - | - | 49 |
| Jun | 170.0 | - | - | - | - | - |
| Nov | 75.0 | - | - | - | - | 3 |
| Mar | 88.1 | -10.9 | - | - | - | - |
| Apr | 99.1 | -11.4 | 106.0 | 99.1 | 95 | 396 |
| Total | | | | | 95 | 448 |

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 1000 | +11 | 995 | 990 | 11 | 951 |
| May | 1045 | +30 | 1045 | 1015 | 45 | 537 |
| Jun | 965 | +35 | 940 | 930 | 6 | 70 |
| Jul | 920 | +10 | 920 | 905 | 43 | 586 |
| Oct | 1010 | +10 | - | - | - | 456 |
| Total | | | | | 105 | 2,599 |

| | Close | Prev |
|---|---|---|
| BFI | 995 | 972 |

### PULP AND PAPER

■ PULPEX OMLX (US$, 24 air dry tons)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jun | 469.50 | +0.50 | - | - | - | 537 |
| Sep | 489.00 | -2.00 | - | - | - | 177 |
| Total | | | | | 0 | 734 |

FUTURES DATA
*All futures data supplied by CMS.*

**Tea** from the Tea Brokers' Association **Mombasa** There was fair general demand. Brighter BP1s declined by up to 25 cents while mediums were 18 cents easier. A few neater lower mediums and plainer descriptions were dearer but others lost value witht he portest sometimrd neglected. Selected best PF1s were dearer by up to 13 cents while other brighter sorts were steadier by up to 10 cents. Better mediums were firm but others irregularly easier by up to 12 cents. Lower medium BP1s were *steady apart from poorer liquoring descriptions which were discounted by up to 25 cents.*

### SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 687 | -18 | 691 | 682 | 3,414 | 10,453 |
| Jul | 691 | -22 | 710 | 690 | 5,391 | 24,620 |
| Sep | 716 | -19 | 732 | 703 | 2,664 | 34,016 |
| Dec | 744 | -19 | 750 | 732 | 1,356 | 29,004 |
| Mar | 760 | -19 | 776 | 757 | 1,707 | 18,544 |
| May | 772 | -20 | 782 | 780 | 230 | 17,285 |
| Total | | | | | 15,373 | 171,282 |

■ COCOA CSCE (10 tonnes; $/tonnes)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 948 | -1 | 965 | 935 | 213 | 288 |
| Jul | 983 | +4 | 1009 | 953 | 3,835 | 30,858 |
| Sep | 1029 | +3 | 1040 | 998 | 606 | 12,088 |
| Dec | 1072 | +3 | 1080 | 1052 | 133 | 7,234 |
| Mar | 1115 | +3 | 1121 | 1072 | 104 | 8,765 |
| May | 1142 | +3 | 1145 | 1105 | 26 | 4,236 |
| Total | | | | | 5,224 | 84,848 |

■ COCOA (ICCO) (SDR's/tonne)

| Apr 26 | Price | Prev. day |
|---|---|---|
| Daily | 624.74 | 630.27 |

■ COFFEE LIFFE (5 tonnes; $/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 1421 | -17 | 1430 | 1420 | 1,697 | 17,868 |
| Jul | 1414 | -16 | 1420 | 1410 | 3,362 | 28,008 |
| Sep | 1425 | -13 | 1430 | 1421 | 1,391 | 9,913 |
| Nov | 1440 | -12 | 1447 | 1436 | 336 | 3,198 |
| Jan | 1444 | -12 | 1450 | 1442 | 84 | 1,140 |
| Mar | 1448 | -12 | 1455 | 1455 | 6 | 202 |
| Total | | | | | 6,946 | 58,404 |

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 100.20 | +0.95 | 100.50 | 98.70 | 383 | 2,886 |
| Jul | 100.75 | +0.80 | 101.20 | 99.25 | 5,234 | 24,783 |
| Sep | 102.45 | +0.85 | 102.85 | 101.20 | 690 | 9,137 |
| Dec | 104.75 | +0.95 | 105.25 | 103.75 | 210 | 4,720 |
| Mar | 106.50 | +0.90 | 107.00 | 105.50 | 28 | 2,191 |
| May | 108.30 | +0.90 | 108.00 | 108.00 | 7 | 419 |
| Total | | | | | 6,630 | 44,267 |

■ COFFEE (ICO) (US cents/pound)

| Apr 27 | | Prev. day |
|---|---|---|
| Comp. daily | 83.88 | 83.17 |
| 15 day average | 85.34 | 85.75 |

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Aug | 160.8 | -7.4 | 168.2 | 161.0 | 1,932 | 26,343 |
| Oct | 164.3 | -5.7 | 170.2 | 164.4 | 119 | 11,752 |
| Dec | 167.1 | -4.6 | 170.0 | 167.0 | 256 | 5,962 |
| Mar | 174.9 | -4.5 | 178.0 | 175.0 | 54 | 3,280 |
| May | 178.8 | -3.6 | 180.5 | 180.5 | 6 | 1,582 |
| Aug | 181.0 | -1.9 | - | - | - | 179 |
| Total | | | | | 2,367 | 49,076 |

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 4.72 | -0.08 | 4.88 | 4.69 | 13,519 | 19,767 |
| Jul | 4.17 | -0.18 | 4.39 | 4.16 | 11,322 | 94,230 |
| Oct | 4.64 | -0.12 | 4.73 | 4.61 | 5,307 | 40,980 |
| Mar | 5.21 | -0.12 | 5.29 | 5.21 | 1,401 | 24,988 |
| May | 5.36 | -0.12 | 5.47 | 5.35 | 68 | 4,098 |
| Jul | 5.48 | -0.12 | 5.57 | 5.52 | 126 | 2,617 |
| Total | | | | | 38,383 | 188,170 |

■ COTTON NYCE (50,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 58.56 | -0.73 | 58.70 | 57.85 | 408 | 1,329 |
| Jul | 59.98 | +0.95 | 60.05 | 58.40 | 2,903 | 30,959 |
| Oct | 60.45 | +0.52 | 60.40 | 60.15 | 38 | 2,246 |
| Dec | 60.15 | +0.37 | 60.25 | 59.95 | 708 | 19,517 |
| Mar | 61.29 | +0.44 | 61.33 | 61.15 | 46 | 3,581 |
| May | 61.75 | +0.46 | - | - | 2 | 1,420 |
| Total | | | | | 4,101 | 59,734 |

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 83.30 | -5.60 | 88.25 | 82.00 | 856 | 9,760 |
| Jul | 83.30 | [illegible] | 87.50 | 83.25 | 1,101 | 11,085 |
| Sep | 85.40 | -4.20 | 87.60 | 83.40 | 57 | 3,887 |
| Nov | 83.85 | -4.10 | 86.60 | 83.50 | 65 | 3,301 |
| Jan | 84.95 | -4.05 | 88.70 | 85.00 | 165 | 2,582 |
| Mar | 85.85 | -4.05 | 88.25 | 87.00 | [illegible] | 368 |
| Total | | | | | 2,185 | 31,075 |

**VOLUME DATA**
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

### INDICES

■ Reuters (Base: 18/9/31 = 100)

| Apr 27 | Apr 26 | month ago | year ago |
|---|---|---|---|
| 1325.4 | 1327.0 | 1346.7 | 1632.4 |

■ CRB Futures (Base: 1967 = 100)

| Apr 26 | Apr 23 | month ago | year ago |
|---|---|---|---|
| 189.02 | 189.71 | - | - |

■ GSCI Spot (Base: 1970 = 100)

| Apr 26 | Apr 23 | month ago | year ago |
|---|---|---|---|
| 156.76 | 157.74 | 152.21 | 164.15 |

LME WAREHOUSE STOCKS (tonnes)

| | | | |
|---|---|---|---|
| Aluminium | -575 | to | 787,200 |
| Aluminium alloy | +260 | to | 64,140 |
| Copper | [illegible] | to | 743,925 |
| Lead | -25 | to | 104,580 |
| Nickel | -96 | to | 60,684 |
| Zinc | +525 | to | 319,800 |
| Tin | +495 | to | 10,085 |

### MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 66.800 | +0.575 | 66.825 | 65.500 | 1,372 | 4,371 |
| Jun | 63.675 | +0.350 | 63.825 | 63.500 | 8,095 | 50,000 |
| Aug | 61.975 | +0.175 | 62.150 | 61.850 | 1,687 | 20,752 |
| Oct | 64.350 | +0.175 | 64.550 | 64.200 | 697 | 13,909 |
| Dec | 65.850 | +0.075 | 66.025 | 65.800 | 339 | 8,254 |
| Feb | 67.375 | +0.080 | 67.450 | 67.300 | 200 | 2,786 |
| Total | | | | | 12,325 | 90,160 |

■ LEAN HOGS CME (40,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jun | 57.725 | -0.450 | 58.200 | 57.350 | 8,156 | 19,846 |
| Jul | 58.725 | -0.625 | 59.250 | 58.500 | 2,126 | [illegible] |
| Aug | 56.800 | -0.175 | 58.100 | 58.530 | 1,017 | 7,305 |
| Oct | 55.550 | -0.175 | [illegible] | 55.200 | 715 | 6,868 |
| Dec | 55.000 | -0.350 | 56.200 | 54.825 | 309 | 4,887 |
| Feb | 57.800 | -0.200 | 57.900 | 57.850 | 24 | 791 |
| Total | | | | | 18,412 | 42,379 |

■ PORK BELLIES CME (40,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 55.750 | +0.875 | 56.800 | 54.500 | 618 | 2,224 |
| Jul | 56.850 | +0.725 | 57.900 | 55.550 | 663 | 2,347 |
| Aug | 56.375 | +0.125 | 57.000 | 54.850 | 65 | 592 |
| Feb | 68.500 | -0.250 | - | 68.500 | 5 | 41 |
| Total | | | | | 1,348 | 5,198 |

### LONDON TRADED OPTIONS

| Strike price $ tonne | Calls | | Puts | |
|---|---|---|---|---|
| ■ ALUMINIUM (99.7%) LME | Jun | Sep | Jun | Sep |
| 1250 | 64 | 94 | 10 | 26 |
| 1300 | 32 | 64 | 28 | 45 |
| 1350 | 13 | 41 | 59 | 71 |
| ■ COPPER (Grade A) LME | Jun | Sep | Jun | Sep |
| 1550 | 42 | 94 | 54 | 79 |
| 1600 | 24 | 71 | 85 | 105 |
| 1650 | 12 | 53 | 123 | 136 |
| ■ COFFEE LIFFE | May | Jul | May | Jul |
| 1400 | 71 | 121 | 57 | [illegible] |
| 1450 | 48 | 99 | 84 | 124 |
| 1500 | 32 | 82 | 118 | 157 |
| ■ COCOA LIFFE | Jul | Sep | Jul | Sep |
| 675 | - | 63 | - | 22 |
| 700 | - | 49 | - | 33 |
| 725 | 19 | 37 | 49 | 46 |
| ■ BRENT CRUDE IPE | Jun | Jul | Jun | Jul |
| 1500 | - | - | 21 | 81 |
| 1550 | - | - | 43 | - |
| 1600 | 22 | 56 | - | - |

### LONDON SPOT MARKETS

| ■ CRUDE OIL FOB (per barrel) | | +or- |
|---|---|---|
| Dubai | $15.32-5.39 | +0.155 |
| Brent Blend (dated) | $15.76-5.82 | +0.17 |
| Brent Blend (Jun) | $15.76-5.82 | +0.17 |
| W.T.I. | $17.75-7.80z | +0.23 |
| ■ OIL PRODUCTS NWE prompt delivery CIF (tonne) | | |
| Unleaded Gasoline ‡ | $157-160 | +2.5 |
| Gas Oil | $126-129 | |
| Heavy Fuel Oil | $72-74 | |
| Naphtha | $141-142 | [illegible] |
| Jet fuel | $160-162 | |
| Diesel | $139-141 | 0.5 |
| ■ NATURAL GAS (Pence/therm) | | |
| Bacton (May) | 9.25-9.28 | +0.025 |
| *Petroleum Argus. Tel. London (0171) 359 8792* | | |
| ■ OTHER | | |
| Gold (per troy oz)§ | $281.95 | +1.00 |
| Silver (per troy oz)§ | 509.75 | -4.75 |
| Platinum (per troy oz.) | $352.00 | -2.00 |
| Palladium (per troy oz.) | $356.00 | +3.50 |
| Copper | 75.0c | |
| Lead (US prod.) | 45.00c | |
| Tin (Kuala Lumpur) | 20.35r | -0.03 |
| Tin (New York) | 257.5 | -1.0 |
| Cattle (live weight) | 90.83p | - |
| Sheep (live weight) | 107.50p | - |
| Pigs (live weight)† | 60.35p | - |
| Lon. day sugar (raw) | $133.70 | -6.00 |
| Lon. day sugar (wte) | $177.00 | -6.50 |
| Barley (Eng. feed) | Unq | |
| Maize (US No3 Yellow) | £95.00 | |
| Wheat (US Dark North) | £120.50 | |
| Rubber (May)♥ | 42.75p | |
| Rubber (Jun)♥ | 43.25p | |
| Rubber (KL RSS No1) | 226.50m | -2.50 |
| Coconut Oil (Phil)§ | 675.0 | -5.0 |
| Palm Oil (Malay.)§ | 480.0y | -7.5 |
| Copra (Phil)§ | 515.0z | |
| Soyabeans (US) | 136.9y | -1.0 |
| Cotton Outlook'A' index | 58.45 | |
| Wooltops (64s Super) | 308p | |

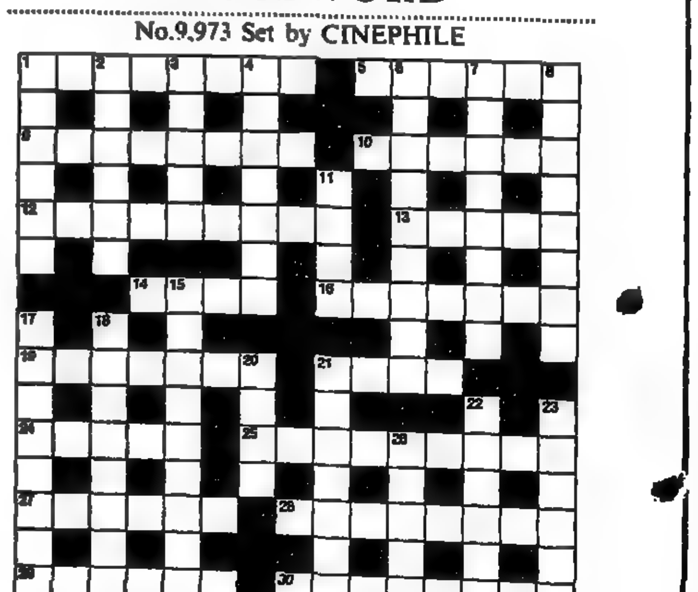
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Mar/Apr. y Mar. x Jun. ♥London Physical. § CIF Rotterdam. § Bullion market close. † Change on week. [illegible] ‡ Unleaded Gasoline replaced Premium on March 15th, on basis of 95p unit.

### JOTTER PAD

For solutions to today's crossword call 0906 843 0080. Calls cost 60p a minute.

### CROSSWORD

No.9,973 Set by CINEPHILE



All the "birds" are Rs (as in 22 and 7 down)

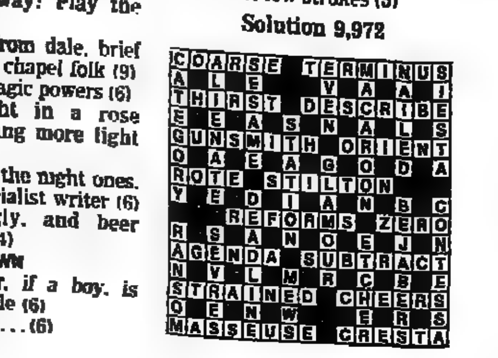
**ACROSS**

1 Cries about nothing on the paper on June 1st: they're easy tasks (4,4)
5 Wise men entertaining model – they could be easy (6)
9 Compact with adhesive, not reduced (4,4)
10 Hands on hips, a pretty girl replaces a bachelor with a knight (6)
12 Clear, formerly with the same change for everybody? (9)
13 Bird or horse as a sideline? (5)
14 Second, maybe second course, is potato (4)
16, 20 Bird – some rowans may fruit in a flash (7,4)
19 Peace or what comes first? Here could be another (2,5)
21 Bird on a string (4)
24 What rodents do with time the other way? Play the guitar? (5)
25 Take Pole from dale, brief *solution* for chapel folk (9)
27 Bird with magic powers (6)
28 Good height in a rose means having more light (8)
29 Bird, one of the night ones, said the Socialist writer (6)
30 Smoky, ugly, and beer swilling? (4-4)

**DOWN**

1 Scout leader, *if a boy*, is given a riddle (6)
2 Bird, see 15 .... (6)
3 .... whose strap has a point – hence David (5)
4 Bird causing excitement on a road (7)
6 Renew your courage and remove the core (4,5)
7 Opposite of R from Ambridge? (4,4)
8 Bird of the night's moan at spots on TV? (5,3)
11 Untidiness of military sociability (4)
15, 2 Bird of general pincer movement (9,6)
17 Try prisoner first for legal impropriety (8)
18 Display aircraft, 500 in back line (3,5)
20 See 16
21 Bird takes Trelawney's part (7)
22 R could be a parrot (6)
23 Bird thus put up its quarry (6)
26 Bird of few strokes (5)

**Solution 9,972**

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هكذا من الأصل



# FT MANAGED FUNDS SERVICE



## OFFSHORE AND OVERSEAS

### BERMUDA (FSA RECOGNISED)

### BERMUDA (REGULATED)(**)

### CAYMAN ISLANDS (REGULATED)(**)

### GUERNSEY (REGULATED)(**)

### GUERNSEY (FSA RECOGNISED)

### IRELAND (FSA RECOGNISED)

### IRELAND (REGULATED)(**)

### ISLE OF MAN (FSA RECOGNISED)

### ISLE OF MAN (REGULATED)(**)

Offshore Funds and Insurances

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Old Mutual Intl Fd Mgrs (Isle of Man) Ltd

## JERSEY
(FSA RECOGNISED)

ABN AMRO Fund Managers (CI) Ltd

Lombard Odier - Contd.

Mercury Asset Mngt Channel Islands Ltd.

Midland Bank Fund Managers (Jersey) Ltd

Minerals, Oils Res. Shrs. Fd. Inc.

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Northgate Intl. Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

Save & Prosper International

Schroders (CI) Ltd

Standard Bank Fund Mgmt (Jersey) Ltd

Worldinvest (Managers) Jersey Ltd

Fidelity Funds - Contd.

Fleming Group (u)

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav

Frankfurter International Portfolios

GT Global

Lombard Odier Invest (u)

Martin Currie Global Funds

Mercury Asset Management

Merrill Lynch Global Strategy Funds (u)

Schroder International Selection Fd - Contd.

Scottish Equitable Intl Fund SICAV (u)

Sun Life Global Management Ltd (u)

Banque Internationale A Luxembourg

Barclays Liquidity Portfolio

Invesco International Limited

Intercam Mexico SICAV

Julius Baer Group

JP Morgan

SCI/TECH SA

Scudder Global Opportunities Funds

## LUXEMBOURG
(FSA RECOGNISED)

ABN AMRO Funds (u)

Bank Von Ernst & Cie AG

Barclays International Funds

Capital International

Chase Manhattan Vista Funds

Comgest SA

Commercial Union Luxembourg SA (u)

Dresdner RCM Global Investors

Fidelity Funds (u)

## JERSEY
(REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

AIB Govett (Jersey) Limited

Bank of Ireland Asset Mngmt (Jersey) Ltd

Barclays Global Investors Jersey Ltd

Barings Intl Funds

Color Allen International Ltd

Lazard Fund Administration Services (CI) Ltd

Lazard Investment Funds (CI) Ltd

Liberty International Asset Management

Lloyds TSB Fund Managers (CI) Ltd

Lombard Odier (Jersey) Ltd

## LUXEMBOURG
(REGULATED)(**)

ACM Offshore Funds

Aberdeen Global Funds

Nikko Global Umbrella Fund

Liberty Newport World Portfolio

Lloyds Bank Luxembourg

Merrill Lynch Asset Management

Templeton Emerging Asia

Union Bancaire Privee

World Trust Fund

## OFFSHORE INSURANCES

Aberdeen International Ltd

هكذا من الاصل



# FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.



OTHER OFFSHORE FUNDS

• MANAGED FUNDS NOTES

# LONDON SHARE SERVICE

## AEROSPACE & DEFENCE

[illegible]

## AUTOMOBILES

[illegible]

## BANKS

[illegible]

## BEVERAGES

[illegible]

## CHEMICALS

[illegible]

## CONSTRUCTION & BUILDING MATERIALS

[illegible]

## CONSTRUCTION & BUILDING MATERIALS - Continued

[illegible]

## DISTRIBUTORS

[illegible]

## DIVERSIFIED INDUSTRIALS

[illegible]

## ELECTRICITY

[illegible]

## ELECTRONIC & ELECTRICAL EQUIPMENT

[illegible]

## ENGINEERING & MACHINERY

[illegible]

## ENGINEERING & MACHINERY - Continued

[illegible]

## FOOD & DRUG RETAILERS

[illegible]



## FOOD PRODUCERS & PROCESSORS

[illegible]

## FORESTRY & PAPER

[illegible]

## GAS DISTRIBUTION

[illegible]

## GENERAL RETAILERS

[illegible]

## HEALTH

[illegible]

## HOUSEHOLD GOODS & TEXTILES

[illegible]

## HOUSEHOLD GOODS & TEXTILES - Continued

[illegible]

## INFORMATION TECHNOLOGY HARDWARE

[illegible]

## INSURANCE

[illegible]

## INVESTMENT COMPANIES

[illegible]

## INVESTMENT COMPANIES - Continued

[illegible]

## INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الأصل

# LONDON SHARE SERVICE

## INV TRUSTS SPLIT CAPITAL - Continued

[illegible]

## MINING - Continued

[illegible]

## REAL ESTATE - Continued

[illegible]

## SPECIALITY & OTHER FINANCE - Continued

[illegible]

## TRANSPORT - Continued

[illegible]

## WATER

[illegible]

## AMERICANS

[illegible]

## STEEL & OTHER METALS

[illegible]

## AIM - Continued

[illegible]

## LEISURE, ENTERTAINMENT & HOTELS

[illegible]

## OIL & GAS

[illegible]



## CANADIANS

[illegible]

## SOUTH AFRICANS

[illegible]

## TRADED INDEX SECURITIES

[illegible]

## REAL ESTATE - Continued

[illegible]

## SUPPORT SERVICES

[illegible]

# AIM

## Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official list.

[illegible]

## LIFE ASSURANCE

[illegible]

## PACKAGING

[illegible]

## RESTAURANTS, PUBS & BREWERIES

[illegible]

## MEDIA & PHOTOGRAPHY

[illegible]

## PERSONAL CARE & HOUSEHOLD PRODUCTS

[illegible]

## SOFTWARE & COMPUTER SERVICES

[illegible]

## PHARMACEUTICALS

[illegible]

## TELECOMMUNICATIONS SERVICES

[illegible]

## TOBACCO

[illegible]

## TRANSPORT

[illegible]

## REAL ESTATE

[illegible]

## SPECIALITY & OTHER FINANCE

[illegible]

## MINING

[illegible]

## GUIDE TO LONDON SHARE SERVICE

[illegible]

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £3570 a year for each security shown, subject to the Editor's discretion.

## ♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the Internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

## FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 60p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

For Retail Price Index details call 0906 843 0066

## The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

# Footsie bursts through 6,600 in record-setting day

**MARKET REPORT**

By Steve Thompson, UK Stock Market Editor

It was a day of broken records all round for the two main FTSE indices. The 100 and All-Share hit intraday and closing highs as the upward momentum in global stock markets gathered pace yesterday.

The FTSE 100 burst through the 6,600 level for the first time ever, but just failed to finish above that mark. It ended the day a net 90.0 ahead at a record closing high of 6,593.6.

At its best of the session, shortly before Wall Street opened, the index hit an intraday peak of 6,635.9.

The soaring FTSE 100 index dragged the FTSE All-Share comfortably clear of the 3,000 level it first broke through two weeks ago.

The broad-based index closed at a record 3,039.31, up 35.4, having hit an intraday record of 3,055.08 during the early afternoon.

For a change, mid-cap and small-cap stocks, which outperformed the market leaders by some distance during the first quarter of the year, were left gasping by the momentum of the front-line stocks.

But the two junior indices nevertheless continued to make excellent progress, the FTSE 250 finishing the day a net 20.1 higher at 5,808.7, having hit 5,814.8 at best, while the FTSE SmallCap settled 8.55 better at 2,542.4, a fraction below the session high of 2,542.5.

Unlike the FTSE 100 and All-Share indices the mid and small-cap remained well below their respective record closing and intraday peaks.

The 250 reached a record close of 5,966.6 on June 9 last year, having touched an intraday record of 5,970.9 the same day.

The SmallCap, meanwhile, achieved a record close of 2,792.7 on May 26 last year, as well as an intraday peak of 2,793.8.

The driving force behind the market's latest upsurge was a mixture of renewed exceptional strength on Wall Street, news and rumours of takeovers and mergers and the momentum argument.

Dealers also said that the "Warren Buffett" factor continued to intrigue market observers, who were continuing to try to unveil the target of Mr Buffett's investment intentions in the UK.

Although the Dow Jones Industrial Average moved up a rather sedate 28 points overnight, it was the accompanying stunning performance of technology and internet stocks that drove the Nasdaq Composite and the S&P 500 to record highs.

That performance demonstrated the complete rehabilitation of a sector that was hit by a substantial burst of profit-taking only weeks ago.

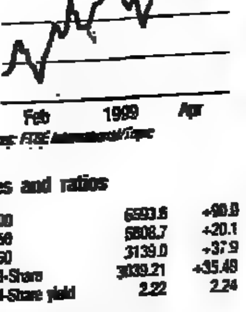
Wall Street continued its drive into previously unknown territory yesterday, lifted by highly encouraging first-quarter results from AT&T, posting a three-figure advance not long into the US session and pushing through 10,800 before coming off its best levels as London finished.

And there was more intense takeover speculation, with the quoted travel companies attracting keen interest on the prospect of Airtours launching a hostile bid for First Choice in the next few days.

The latter has already announced a merger with Kuoni and a hostile move by Airtours.

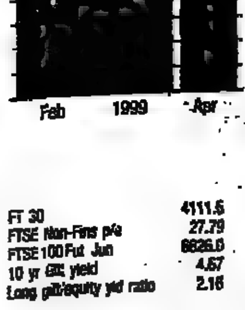
Turnover in equities was 1.1bn shares.

FTSE All-Share Index




Source: FTSE International/Topic

Equity shares traded
Turnover by volume (million)




**Indices and ratios**

| | | |
|---|---|---|
| FTSE 100 | 6593.6 | +90.0 |
| FTSE 250 | 5808.7 | +20.1 |
| FTSE 350 | 3139.0 | +37.9 |
| FTSE All-Share | 3039.21 | +35.40 |
| FTSE All-Share yield | 2.22 | 2.24 |
| FT 30 | 4111.6 | +48.2 |
| FTSE Non-Fins p/e | 27.79 | 27.46 |
| FTSE 100 Fut Jun | 6626.0 | +77.0 |
| 10 yr Gilt yield | 4.67 | 4.79 |
| Long gilt/equity yld ratio | 2.16 | 2.08 |

**Best performing sectors**

1. Electronic & Elect Equip +6.3
2. Beverages +2.6
3. Personal Care & Hse Prods +2.6
4. Oil & Gas +2.3
5. Resources +2.2

**Worst performing sectors**

1. Engineering & Machinery −2.2
2. Electricity −1.0
3. Tobacco −1.0
4. Health −0.9
5. Diversified Industrials −0.8

# Glaxo regains health

**COMPANIES REPORT**

By Peter John, Martin Brice and Joel Kibazo

Glaxo Wellcome recovered some of its recent lost ground as enthusiasm built up ahead of a major conference on Friday.

The company is hosting a presentation on its anti-viral arm, which covers influenza, hepatitis B and HIV. It will detail its progress to more than 100 analysts and institutional investors at its site in Greenford, Middlesex.

One analyst said Glaxo could face tough questions on sales of Lamivudine, the hepatitis B product that has just been recommended for European approval.

The company could also be quizzed closely on the outlook for Relenza, the flu product that failed to get a US stamp of approval in February.

The shares, which hit a high of £23.33 recently, have fallen sharply in the past few weeks as the economy is seen in a better light and cyclical stocks return to favour. Yesterday they rallied 64 to £19.62.

United News & Media scooped the Footsie for some of the day as investors reacted to a positive annual meeting statement.

The publishing and broadcasting group said on Monday that the year had started well and television revenue was up 12 per cent in the first quarter. United also said it had seen good growth in its US and UK classified businesses and rising contributions from new magazine launches.

Analysts said the shares were already the cheapest among the media sector's 10 Footsie members and Lorna Tilbian at WestLB Panmure said they were 30 per cent below her fair value estimate.

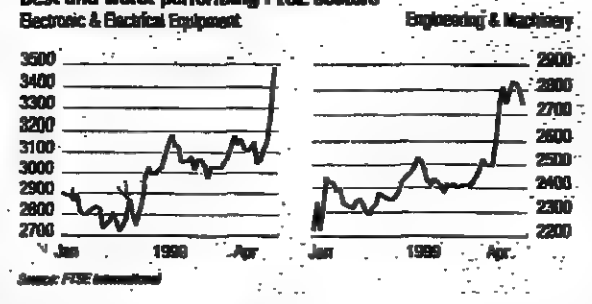
Panmure has been marketing a big review of the sector, which has United as one of its core buys, and other brokers were also turning more positive.

HSBC upgraded the stock from "hold" to "buy" with a 725p price target and Merrill Lynch moved to "trading buy" from "accumulate". The shares ended 37 higher at 655p.

Vickers started the ball rolling on the engineering sector's trading updates with the bullish tone that some analysts had been forecasting. The shares were among the better performers in the MidCap index as they rose almost 5 per cent or 8 to 171p.

Best and worst performing FTSE sectors

Electronic & Electrical Equipment / Engineering & Machinery




Source: FTSE International

Several other leading engineers also had a strong day. TI Group gained 25¾ to 495p, while Charter gained 23½ to 453½p.

Vickers said its first half would be "exceptionally strong" while the second half should be stronger than the same period last time.

The stock has fallen from 348p in the past year as engineering stock has fallen out of favour with investors. However, the swing into cyclical stocks has seen it recover some of its underperformance against the market. In particular, the past few weeks have seen it outperform by 15 per cent.

The strong run enjoyed by Invensys ran out of steam as it edged down 2½ to 315¾p.

The market spotlight turned to the tour operators as rumours of a bid swept through the market late in the day.

Talk suggested Airtours was lining up a hostile approach for First Choice, which it failed to acquire in 1993. Shares in Airtours hardened a penny to close at 453½p, while its potential target ended the session 5 ahead at 196p.

It emerged earlier this week that Airtours had broken off a takeover approach to First Choice last month when the latter announced a £1.5bn merger with Kuoni of Switzerland.

Evidence of the market's continuing appetite for anything to do with the internet came with the surge in retailer Kingfisher. The group said it was launching a pan-European free internet access service with French group Arnault.

## Kingfisher jumps

The service to be called Libertysurf follows in the footsteps of electrical retailer Dixons, which saw its shares soar following last September's launch of its Freeserve internet service. Libertysurf will initially be made available through Kingfisher's Darty chain of electrical stores in France.

The stock jumped 46 to 882p, with sentiment boosted by a buoyant first-quarter trading update late on Monday from home improvements unit Castorama.

Dixons continued to be the subject of profit-taking and the shares yesterday lost another 88 to £13.31.

WPP, a strong performer last week, added 6½ at 566½p following encouraging first-quarter figures.

BSkyB, which announced it was losing its second chief executive in as many years, came off the top to close 9 higher at 579½p.

Severn Trent moved forward 25 to 825½p ahead of a presentation tomorrow to analysts about its waste business.

Buying by income funds ahead of the release of a 12p special dividend on May 10 saw energy services group Centrica move up 2 to 124¼p on hefty turnover of 39m. In addition, the management have been telling an upbeat story to institutions.

SmithKline Beecham benefited from broker support following US recommendation of its Avandia diabetes treatment last week. Goldman Sachs upgraded its earnings per share estimate for next year almost 4 per cent to 27.1p and for 2001 by 5.4 per cent to 31.2p.

And Sutherlands' newly beefed-up pharmaceuticals team reinforced its "buy" stance with an in-depth review of the company and its key "drivers for growth". The shares lifted 6 to 869½p.

The long-anticipated move to deliver to shareholders in Acorn, the software group, the full value of its stake in Arm Holdings came at last when Acorn accepted a complex takeover bid.

Arm shares have more than tripled in the past year, leading to an anomalous situation in which the 24 per cent stake in Arm that Acorn owned was worth 35 per cent more than the entire market capitalisation of Acorn. Arm closed down almost 5 per cent or 32½ at 665p, at which price it valued Acorn at 266p. Acorn was ahead 9½ at 254½p.

Plans for disposals at spirits giant Diageo cheered investors, helping lift the shares 30 at 718½p.

Television company Flextech continued to attract buyers following positive press comment and a broker's recommendation earlier this week. The shares jumped 50 or nearly 6 per cent to 901p, the best performer in the FTSE 250.

## FT 30 INDEX

| | Apr 27 | Apr 26 | Apr 23 | Apr 22 | Apr 21 | Yr ago | *High | *Low |
|---|---|---|---|---|---|---|---|---|
| FT 30 | 4111.6 | 4063.4 | 4025.4 | 4017.6 | 3972.8 | 3738.1 | 4111.6 | 2790.6 |
| Ord. div yield | 2.58 | 2.60 | 2.63 | 2.63 | 2.65 | 2.98 | 4.22 | 2.58 |
| P/E ratio net | 24.61 | 24.24 | 23.95 | 23.98 | 23.73 | 24.21 | 26.41 | 15.80 |
| P/E ratio nil | 24.54 | 24.18 | 23.89 | 23.91 | 23.66 | 23.99 | 26.19 | 15.71 |

FT 30 since compilation: high 4111.6 4/27/99; low 49.4 6/26/40 Base Date: 1/7/35.

FT 30 hourly changes

| 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | High | Low |
|---|---|---|---|---|---|---|---|---|---|
| 4063.4 | 4094.2 | 4121.6 | 4118.6 | 4127.0 | 4144.5 | 4136.9 | 4120.7 | 4148.0 | 4063.4 |



## STOCK MARKET TRADING DATA

| | Apr 27 | Apr 26 | Apr 23 | Apr 22 | Apr 21 | Yr ago |
|---|---|---|---|---|---|---|
| SEAQ bargains | 84,981 | 76,381 | 75,170 | 80,832 | 84,744 | 63,778 |
| Equity turnover (£m)† | - | 3349.8 | 4432.9 | 4920.6 | [illegible] | [illegible] |
| Equity bargains† | - | 61,460 | 62,601 | 65,432 | 70,449 | 52,022 |
| Shares traded (m)† | - | 780.5 | 984.3 | 1090.0 | 1188.8 | 820.6 |
| Total market bargains‡ | - | n/a | 75,474 | 81,340 | 86,702 | - |
| Total turnover (£m)‡ | - | n/a | 8154.9 | 7121.3 | 7353.4 | - |
| Total shrs traded (m)‡ | 1088.4* | n/a | 1308.0 | 1496.8 | 1512.8 | - |
| Tradepoint turnover (£m) | 29.2 | 18.8 | 31.0 | 42.1 | 29.4 | 22.0 |
| Tradepoint shrs traded(m) | 12.5 | 7.3 | 11.9 | 15.8 | 15.4 | 6.6 |

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover

London market data

| Rises and falls* | | 52 Week highs and lows | | LIFFE Equity options | |
|---|---|---|---|---|---|
| Total Rises | 992 | Total Highs | 148 | Total contracts | 57,063 |
| Total Falls | 564 | Total Lows | 16 | Calls | 31,460 |
| Same | 1,293 | | | Puts | [illegible] |

Apr 27 *Data based on Equity shares listed on the London Share Service.

## FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 6542.8 | 6622.0 | +63.0 | 6570.0 | 6524.0 | 30494 | 195137 |
| Sep | 6595.5 | 6671.5 | +83.5 | 6659.5 | 6629.5 | 200 | 6897 |
| Dec | - | 6734.8 | +86.0 | - | - | 0 | 1180 |

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Jun | 5820.0 | 5810.0 | +20.0 | 5825.0 | 5825.0 | 1 | 7388 |

FTSE 100 INDEX OPTION (LIFFE) (6593) £10 per full index point — [illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — [illegible]

## LONDON RECENT ISSUES: EQUITIES

[illegible]

## RIGHTS OFFERS

[illegible]

## FTSE GOLD MINES INDEX

[illegible]

## FTSE Actuaries Share Indices — UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

| | £ Stg Apr 27 | Day's chge% | Euro Index | £ Stg Apr 26 | £ Stg Apr 23 | Year ago | Actual yield% |
|---|---|---|---|---|---|---|---|
| FTSE 100 | 6593.6 | +1.4 | 7798.6 | 6503.6 | 6428.0 | 5808.8 | 2.09 |
| FTSE 250 | 5808.7 | +0.3 | 6871.2 | 5788.6 | 5784.5 | 5567.9 | 2.71 |
| FTSE 250 ex Inv Co | 5865.1 | +0.3 | 6938.0 | 5848.4 | 5847.5 | 5620.3 | 2.83 |
| FTSE 350 | 3139.0 | +1.2 | 3713.2 | 3101.1 | 3070.3 | 2807.4 | 2.19 |

[illegible]

FTSE Actuaries Industry Sectors — [illegible]

Hourly movements — [illegible]

## TRADING VOLUME

Major Stocks yesterday.

[illegible]



FTSE INTERNATIONAL

هكذا من الأصل



Highs & Lows shown on a 52 week basis

# WORLD STOCK MARKETS

## EUROPE (EMU) Prices in €

AUSTRIA (Apr 27) 1 € = 13.76030 Sch

BELGIUM/LUX (Apr 27) 1 € = 40.33990 Frs.

FINLAND (Apr 27) 1 € = 5.94573 Mka

FRANCE (Apr 27) 1 € = 6.55957 Frs.

GERMANY (Apr 27) 1 € = 1.95583 Dm

IRELAND (Apr 27) 1 € = 0.78756 Punt

ITALY (Apr 27) 1 € = 1936.27000 Lire

NETHERLANDS (Apr 27) 1 € = 2.20371 Fl

PORTUGAL (Apr 27) 1 € = 200.48200 Esc.

SPAIN (Apr 27) 1 € = 166.38600 Pta

## EUROPE (NON-EMU)

CZECH REP (Apr 27 / Koruna)

DENMARK (Apr 27 / Kr)

GREECE (Apr 27 / Drachma)

NORWAY (Apr 27 / Krone)

POLAND (Apr 27 / Zloty)

SWEDEN (Apr 27 / Kronor)

SWITZERLAND (Apr 27 / Frs.)

TURKEY (Apr 27 / Tk Lira)

## PACIFIC

JAPAN (Apr 27 / Yen)

AUSTRALIA (Apr 27 / Aus$)

HONG KONG (Apr 27 / H.K.$)

INDONESIA (Apr 27 / Rupiah)

MALAYSIA (Apr 27 / MYR)

NEW ZEALAND (Apr 27 / NZ $)

SINGAPORE (Apr 27 / S$)

SOUTH KOREA (Apr 27 / Won)

TAIWAN (Apr 27 / TW $)

THAILAND (Apr 27 / Baht)

## AMERICAS

CANADA

TORONTO (Apr 27 / Can $)

4 pm close

MONTREAL (Apr 27 / Can $)

4 pm close

MEXICO (Apr 27 / Peso)

12.30pm

## AFRICA

SOUTH AFRICA (Apr 26 / Rand)



## FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | MONDAY APRIL 26 1999 US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | Euro Index | Local Currency Index | Local % chg on day | Gross Div. Yield | FRIDAY APRIL 23 1999 US Dollar Index | Pound Sterling Index | Yen Index | Euro Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (75) | 233.30 | -0.8 | 214.45 | 175.43 | 253.39 | 239.45 | 0.2 | 3.15 | 234.63 | 215.15 | 177.08 | 253.81 | 238.99 | 234.63 | 163.86 | 217.26 |
| Austria (21) | 190.11 | 0.2 | 174.75 | 142.95 | 182.20 | 182.20 | 0.6 | 1.97 | 189.80 | 174.04 | 143.24 | 181.17 | 181.17 | 253.73 | 185.27 | 225.35 |
| Belgium (22) | 354.68 | -0.1 | 326.03 | 268.70 | 332.81 | 332.81 | 0.3 | 2.16 | 355.01 | 325.53 | 267.93 | 331.77 | 331.77 | 446.95 | 319.89 | 328.97 |
| Brazil (29) | 144.78 | -0.5 | 133.09 | 108.87 | 157.25 | 452.52 | 0.3 | 4.99 | 145.58 | 133.49 | 109.87 | 157.47 | 451.25 | 258.04 | 89.32 | 258.04 |
| Canada (113) | 228.48 | -0.1 | 210.02 | 171.80 | 248.15 | 244.97 | 0.2 | 1.60 | 228.71 | 209.72 | 172.61 | 247.40 | 244.49 | 246.40 | 159.94 | 244.34 |
| Denmark (34) | 415.12 | -0.4 | 381.58 | 312.14 | 450.67 | 395.82 | 0.0 | 1.90 | 416.93 | 382.31 | 314.66 | 451.00 | 395.90 | 537.33 | 406.62 | 502.69 |
| Finland (28) | 678.51 | -1.8 | 623.69 | 510.19 | 798.56 | 798.56 | -1.4 | 1.47 | 690.62 | 633.28 | 521.22 | 809.53 | 809.53 | 719.62 | 338.49 | 431.58 |
| France (74) | 322.50 | 0.2 | 296.44 | 242.50 | 312.99 | 312.99 | 0.6 | 1.97 | 321.85 | 295.13 | 242.90 | 311.10 | 311.10 | 354.45 | 253.86 | 298.25 |
| Germany (54) | 263.08 | 0.6 | 241.82 | 197.81 | 252.30 | 252.30 | 1.0 | 1.58 | 261.41 | 239.71 | 197.29 | 249.70 | 249.70 | 325.61 | 226.35 | 277.18 |
| Greece (26) | 370.70 | -2.1 | 340.75 | 278.74 | 402.62 | 817.58 | -1.6 | 1.34 | 378.49 | 347.06 | 285.65 | 409.42 | 831.24 | 454.89 | 211.47 | - |
| Hong Kong, China (66) | 387.71 | 1.8 | 356.36 | 291.53 | 421.09 | 385.74 | 1.8 | 2.98 | 380.95 | 349.32 | 287.51 | 412.08 | 379.04 | 387.71 | 196.64 | 330.67 |
| Indonesia (21) | 55.41 | -0.5 | 50.93 | 41.66 | 60.18 | 292.16 | -0.2 | 1.10 | 55.68 | 51.06 | 42.02 | 60.23 | 292.90 | 60.92 | 19.04 | 56.82 |
| Ireland (14) | 539.67 | -0.3 | 496.06 | 405.79 | 564.87 | 564.87 | 0.1 | 1.84 | 541.50 | 496.54 | 408.68 | 564.50 | 564.50 | 605.85 | 396.15 | 547.73 |
| Italy (53) | 165.01 | -1.5 | 151.68 | 124.08 | 225.07 | 225.07 | -1.1 | 1.55 | 167.55 | 153.64 | 126.45 | 227.61 | 227.61 | 192.64 | 128.68 | 160.36 |
| Japan (443) | 117.63 | 0.9 | 108.13 | 88.45 | 127.76 | 88.45 | 0.5 | 0.83 | 116.59 | 106.91 | 87.99 | 126.12 | 87.99 | 118.43 | 76.83 | 98.52 |
| Mexico (29) | 1651.61 | -1.7 | 1518.16 | 1241.89 | 1793.82 | 16808.22 | -1.4 | 1.51 | 1680.74 | 1541.19 | 1268.47 | 1818.11 | 17047.69 | 1695.45 | 787.15 | 1693.96 |
| Netherlands (26) | 506.75 | 0.1 | 465.81 | 381.04 | 480.74 | 480.74 | 0.5 | 2.00 | 506.30 | 464.27 | 382.11 | 478.38 | 478.38 | 562.73 | 394.92 | 500.99 |
| New Zealand (18) | 69.03 | 0.4 | 63.45 | 51.90 | 74.97 | 66.98 | 0.7 | 3.59 | 68.76 | 63.06 | 51.90 | 74.38 | 66.50 | 76.03 | 45.68 | 76.03 |
| Norway (37) | 257.93 | -1.0 | 237.09 | 193.94 | 280.14 | 273.21 | -0.8 | 1.79 | 260.47 | 238.85 | 196.58 | 281.76 | 275.39 | 357.71 | 181.86 | 350.51 |
| Philippines (22) | 111.61 | 0.4 | 102.59 | 83.92 | 121.22 | 211.08 | 0.2 | 0.69 | 111.19 | 101.95 | 83.91 | 120.27 | 210.56 | 111.61 | 42.48 | 96.63 |
| Portugal (18) | 211.33 | -0.7 | 194.25 | 158.90 | 273.52 | 273.52 | -0.3 | 1.62 | 212.89 | 195.21 | 160.67 | 274.42 | 274.42 | 299.39 | 194.13 | - |
| Singapore (40) | 279.27 | 1.1 | 256.70 | 209.99 | 303.32 | 218.65 | 0.6 | 1.18 | 276.13 | 253.20 | 208.40 | 298.70 | 217.32 | 279.27 | 102.45 | 207.48 |
| South Africa (34) | 236.06 | 0.9 | 216.99 | 177.50 | 256.39 | 313.16 | 0.4 | 3.09 | 233.94 | 214.51 | 176.56 | 253.06 | 311.85 | 339.54 | 151.55 | 337.75 |
| Spain (29) | 365.71 | -0.4 | 337.06 | 275.74 | 435.96 | 435.96 | 0.1 | 1.64 | 367.96 | 337.43 | 277.72 | 435.73 | 435.73 | 436.19 | 290.81 | 374.11 |
| Sweden (41) | 565.80 | 1.0 | 520.08 | 425.44 | 614.52 | 702.83 | 1.3 | 1.94 | 560.21 | 513.70 | 422.79 | 605.99 | 693.57 | 628.19 | 379.18 | 585.15 |
| Switzerland (30) | 385.61 | 0.9 | 354.45 | 289.95 | 418.82 | 361.44 | 1.4 | 1.29 | 382.05 | 350.33 | 288.34 | 413.28 | 356.45 | 441.65 | 307.73 | 385.07 |
| Thailand (26) | 31.92 | 7.8 | 29.34 | 24.00 | 34.67 | 46.68 | 8.1 | 1.78 | 29.62 | 27.16 | 22.35 | 32.04 | 43.19 | 31.92 | 8.15 | 26.80 |
| United Kingdom (201) | 411.11 | 0.8 | 377.89 | 309.13 | 446.51 | 377.89 | 1.1 | 2.24 | 407.74 | 373.89 | 307.72 | 441.06 | 373.89 | 411.84 | 307.96 | 384.25 |
| USA (605) | 561.31 | 0.2 | 515.96 | 422.08 | 609.64 | 561.31 | 0.2 | 1.19 | 559.91 | 513.43 | 422.57 | 605.68 | 559.91 | 561.31 | 390.12 | 452.98 |
| Americas (776) | 499.50 | 0.2 | 459.14 | 375.59 | 542.51 | 423.43 | 0.2 | [illegible] | [illegible] | 457.03 | 376.15 | 539.14 | 422.43 | 499.50 | 347.59 | 410.71 |
| Europe (718) | 360.64 | 0.3 | 331.50 | 271.17 | 391.69 | 350.73 | 0.7 | 1.90 | 359.43 | 329.59 | 271.27 | 388.81 | 348.34 | 386.24 | 282.63 | 349.65 |
| Eurobloc (339) | 100.75 | -0.1 | 92.61 | 75.76 | 104.58 | 104.58 | 0.3 | 1.77 | 100.85 | 92.48 | 78.12 | 104.27 | 104.27 | 113.92 | 81.63 | - |
| Nordic (140) | 530.60 | -0.2 | 487.73 | 398.98 | 576.29 | 580.70 | 0.1 | 1.78 | 531.77 | 487.62 | 401.33 | 575.23 | 568.92 | 555.97 | 380.04 | 517.08 |
| Pacific Basin (711) | 127.60 | 0.9 | 117.29 | 95.95 | 138.59 | 98.70 | 0.6 | 1.25 | 126.52 | 116.01 | 95.48 | 136.86 | 98.08 | 127.60 | 82.68 | 108.79 |
| Euro-Pacific (1429) | 224.10 | 0.5 | 206.00 | 168.51 | 243.40 | 193.33 | 0.7 | 1.69 | 222.98 | 204.47 | 168.29 | 241.21 | 192.05 | 225.07 | 166.00 | 209.19 |
| North America (718) | 538.84 | 0.2 | 495.30 | 405.17 | 585.24 | 539.45 | 0.2 | 1.20 | 537.57 | 492.94 | 405.71 | 581.50 | 538.15 | 538.84 | 374.92 | 439.70 |
| Europe Ex. UK (517) | 324.90 | 0.1 | 298.65 | 244.30 | 352.88 | 327.21 | 0.5 | 1.71 | 324.70 | 297.74 | 245.05 | 351.24 | 325.68 | 366.32 | 250.93 | 321.54 |
| Europe Ex. Eurobloc (379) | 101.97 | 0.8 | 93.73 | 76.68 | 110.75 | 105.34 | 1.1 | 2.03 | 101.19 | 92.79 | 76.37 | 109.46 | 104.23 | 103.93 | 77.40 | - |
| Europe Ex. UK Ex. Eurobloc (178) | 95.97 | 0.6 | 88.22 | 72.16 | 104.24 | 99.52 | 1.1 | 1.49 | 95.37 | 87.45 | 71.98 | 103.17 | 98.48 | 109.21 | 75.16 | - |
| Pacific Ex. Japan (268) | 221.84 | 0.7 | 203.92 | 166.81 | 240.95 | 224.05 | 1.0 | 2.83 | 220.29 | 202.00 | 166.25 | 238.29 | 221.83 | 221.84 | 128.26 | 201.61 |
| World Ex. Eurobloc (1900) | 116.38 | 0.4 | 106.98 | 87.51 | 126.40 | 115.80 | 0.4 | 1.37 | 115.89 | 106.27 | 87.46 | 125.36 | 115.29 | 116.38 | 83.09 | - |
| World Ex. US (1634) | 224.69 | 0.4 | 206.54 | 168.95 | 244.04 | 199.21 | 0.6 | 1.72 | 223.68 | 205.11 | 168.81 | 241.96 | 197.97 | 225.28 | 165.95 | 213.55 |
| World Ex. UK (2038) | 325.66 | 0.3 | 299.35 | 244.87 | 353.70 | 295.49 | 0.4 | 1.34 | 324.73 | 297.77 | 245.07 | 351.27 | 295.47 | 325.66 | 235.11 | 281.83 |
| World Ex. Japan (1796) | 440.57 | 0.3 | 404.97 | 331.28 | 478.51 | 438.18 | 0.4 | 1.50 | 439.36 | 402.88 | 331.59 | 475.27 | 438.39 | 440.57 | 320.58 | 386.10 |
| The World Index (2239) | 333.05 | 0.3 | 306.13 | 250.43 | 361.72 | 304.03 | 0.4 | 1.43 | 331.90 | 304.35 | 250.49 | 359.03 | 302.75 | 333.05 | 242.36 | 290.52 |



## Emerging markets: IFC investable indices

Dollar terms

| Apr 26 Market | | Day's chg % | % Chg since 31/12/98 |
|---|---|---|---|
| **Latin America** | | | |
| Argentina | 918.62 | -0.1 | +15.2 |
| Brazil | 300.70 | -0.4 | +9.3 |
| Chile | 556.60 | -2.2 | +23.3 |
| Colombia[1] | 452.85 | +3.1 | +3.0 |
| Mexico | 690.39 | -1.6 | +43.4 |
| Peru[2] | 158.46 | -0.7 | +17.9 |
| Venezuela[3] | 464.64 | +3.8 | +2.5 |
| **East Asia** | | | |
| China[4] | 29.95 | +1.3 | +14.4 |
| India[7] | 66.72 | -5.1 | +3.9 |
| Indonesia[8] | 28.09 | -1.3 | +16.0 |
| Korea[5] | 75.95 | +4.2 | +43.3 |
| Malaysia | 103.25 | +5.0 | +16.6 |
| Pakistan[9] | 105.71 | +0.2 | +11.8 |
| Philippines | 154.08 | +0.5 | +25.2 |
| Sri Lanka[10] | 64.94 | +1.9 | -21.2 |
| Taiwan, China[6] | 142.41 | +0.3 | +23.0 |
| Thailand | 73.58 | +3.4 | +16.5 |
| **Europe** | | | |
| Czech Rep | 45.02 | +0.6 | -11.3 |
| Greece | 673.13 | -2.2 | +8.7 |
| Hungary[11] | 257.20 | -0.3 | -8.3 |
| Poland[12] | 558.21 | -0.5 | +6.6 |
| Russia | 42.40 | +0.3 | +80.8 |
| Slovakia | 32.12 | +4.2 | -26.3 |
| Turkey[14] | 252.47 | +3.1 | +72.5 |
| **Mideast/Africa** | | | |
| Egypt | 70.26 | -0.7 | +9.0 |
| Israel | 130.61 | -0.6 | +27.8 |
| Jordan | 221.55 | -0.3 | +2.3 |
| Morocco | 151.52 | -0.4 | -9.5 |
| S Africa[15] | 158.23 | +1.2 | +24.8 |
| Zimbabwe[16] | 134.14 | -1.3 | +27.3 |
| **Regions** | | | |
| Composite | 228.72 | +0.3 | +22.5 |
| Latin America | 516.37 | -0.9 | +23.0 |
| Asia | 134.80 | +1.4 | +26.0 |
| EMEA | 194.46 | +0.3 | +17.7 |
| Europe | 170.63 | -0.1 | +13.9 |
| Eastn Europe | 65.00 | -0.0 | +11.8 |
| ME & Africa | 65.15 | +0.7 | +21.5 |
| Comp + Malay | 231.32 | +0.6 | +22.1 |
| Asia + Malay | 133.74 | +2.0 | +23.8 |

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)May 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.



FTSE

# NEW YORK STOCK EXCHANGE PRICES

4 pm close April 27

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

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- K -

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- L -

[illegible]

- M -

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- N -

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- O -

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- P - Q -

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- R -

[illegible]

- S -

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

| 1999 High | Low | Stock | Div | Yld % | P/E | Vol 100s | High | Low | Close Price | Chng Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 63 | 51 | Xerox | 0.80 | 1.4 | 22 | 20401 | 57½ | 55⅝ | 56½ | +1⅛ |
| 77¼ | 54½ | XI Cap x | 1.76 | 2.9 | 9 | 3584 | 60⅞ | 59¼ | 60 | +1 |
| 43½ | 37½ | Xtra Corp | | | 10 | 385 | 41¾ | 40⅞ | 41⅛ | +¼ |
| 28⅝ | [illegible] | Yankee Egy | 1.38 | 5.0 | 24 | 256 | 28¼ | 27½ | 27½ | [illegible] |
| 42 | 33⅞ | York Int | 0.60 | 1.5 | 11 | 2879 | 41¼ | 40⅛ | 40⅞ | +⅞ |
| [illegible] | 8⅛ | Zapata | | | 3 | 467 | 9¼ | 9 | 9⅛ | |
| 26 | [illegible] | Zenith Nat | 1.00 | 4.4 | 20 | 202 | [illegible] | [illegible] | [illegible] | +½ |
| [illegible] | [illegible] | Zenix Inc x | 0.67 | 11.7 | | 60 | [illegible] | [illegible] | [illegible] | |
| [illegible] | [illegible] | ZweigFdx x | 1.20 | 11.0 | | 519 | [illegible] | [illegible] | [illegible] | |
| [illegible] | [illegible] | Zweig Tot x | 0.84 | 10.1 | | 881 | [illegible] | [illegible] | [illegible] | [illegible] |

*Price data supplied by Financial Times Information.*

Yearly highs and lows for NYSE reflect the period from Jan 1 1999. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
# Dealings suspended.

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# GLOBAL EQUITY MARKETS

## US INDICES

| Dow Jones | Apr 26 | Apr 23 | Apr 22 | 1999 High | 1999 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 10718.59 | 10689.67 | 10727.18 | 10727.18 (22/4) | 9120.67 (22/1) | 10727.18 (22/4/99) | 41.22 (8/7/32) |
| Home Bonds | 104.03 | 103.99 | 104.02 | 106.88 (13/1) | 103.96 (1/4) | 107.17 (9/12/98) | 54.99 (1/10/81) |
| Transport | 3610.57 | 3589.68 | 3609.92 | 3610.57 (26/4) | 3063.80 (22/1) | 3688.02 (16/4/98) | 13.23 (8/7/32) |
| Utilities | 302.59 | 301.27 | 302.44 | 311.91 (4/1) | 286.44 (12/2) | 320.51 (8/10/98) | 16.53 (8/7/32) |

DJ Ind. Day's high 10854.33 (10858.34) Low 10540.47 (10530.45) (Theoretical)
Day's high 10729.19 (10754.67) Low 10649.86 (10646.71) (Actual)

| Standard and Poors | Apr 26 | Apr 23 | Apr 22 | 1999 High | 1999 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite‡ | 1360.04 | 1356.85 | 1358.83 | 1360.04 (26/4) | 1212.19 (14/1) | 1360.04 (26/4/99) | 4.40 (1/6/32) |
| Industrials¥ | 1635.22 | 1625.01 | 1636.33 | [illegible] (26/4) | 1461.72 (14/1) | 1685.22 (26/4/99) | 3.52 (30/6/32) |
| Financial¥ | 149.23 | 150.86 | 151.42 | 151.42 (22/4) | 123.72 (9/2) | 151.42 (22/4/99) | 7.13 (4/8/74) |
| **Others** | | | | | | | |
| NYSE Comp. | 638.83 | 639.30 | 640.97 | 640.97 (22/4) | 576.62 (9/2) | 640.97 (22/4/99) | 4.64 (25/4/42) |
| Amex Comp | 771.60 | 770.36 | 758.38 | 771.60 (26/4) | 683.61 (4/1) | 771.60 (26/4/99) | 524.20 (16/7/96) |
| NASDAQ Cmp | 2652.05 | 2590.69 | 2561.61 | 2652.05 (26/4) | 2208.05 (4/1) | 2652.05 (26/4/99) | 54.87 (3/10/74) |
| Russell 2000 | 434.97 | 431.73 | 426.85 | 434.97 (26/4) | 383.37 (23/3) | 491.41 (21/4/98) | 123.36 (7/12/93) |

### RATIOS

| | Apr 23 | Apr 16 | Apr 9 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 1.51 | 1.51 | 1.56 | 1.55 |
| | Apr 21 | Apr 14 | Apr 7 | Year ago |
| S & P Ind. Div. yield | 1.08 | 1.08 | 1.07 | 1.29 |
| S & P Ind. P/E ratio | 41.60 | 41.48 | 41.63 | 31.13 |

## US DATA

### MARKET ACTIVITY

| Volume (million) | Apr 26 | Apr 23 | Apr 22 |
|---|---|---|---|
| NYSE | 712.040 | 744.810 | 827.950 |
| Amex | 28.678 | 31.227 | 35.418 |
| NASDAQ | 1,062.8 | 1,057.4 | 1,116.8 |

| NYSE | Apr 26 | Apr 23 | Apr 22 |
|---|---|---|---|
| Issues Traded | 3,541 | 3,505 | 3,528 |
| Rises | 1,407 | 1,520 | 1,690 |
| Falls | 1,593 | 1,398 | 1,290 |
| Unchanged | 541 | 587 | 548 |
| New Highs | 79 | 59 | 66 |
| New Lows | 18 | 20 | 29 |

### NYSE TRADING ACTIVITY Volume : 712,040,000

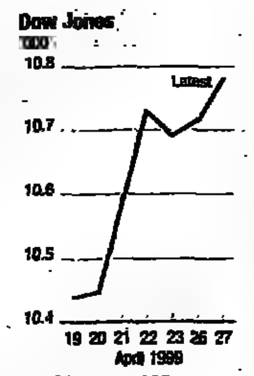
| ACTIVE STOCKS Monday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Compaq | 20,225,500 | 23⅝ | +⅜ |
| AmOnLne | 20,213,400 | 159⅝ | +12⅝ |
| AT&T | 18,155,400 | 52⅞ | -⅜ |
| LucentTch | 8,419,500 | 62⅝ | +1⅞ |
| IBM | 8,372,000 | 210¼ | +10⅛ |
| PhMorr | 6,468,600 | 34⅝ | -⅛ |
| MedOne | 5,975,800 | 78⅞ | +1⅜ |
| Cabtrn | 5,872,700 | 9⅛ | +1⅛ |
| WalMrt | 5,625,100 | 50⅞ | |
| Merck | 5,486,300 | 74 | -1⅝ |

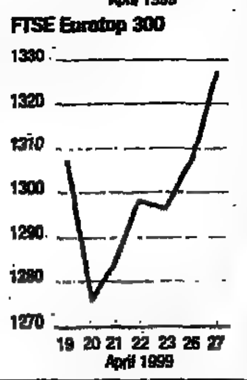
| BIGGEST MOVERS Monday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| Sothebys | 48⅜ | +8⅝ | +21.4 |
| ChckSy | 10⅞ | +1½ | +18.8 |
| CompTek | 19 | +2⅜ | +14.3 |
| LaborRdy | 29⅛ | +3 | +11.4 |
| Downs | | | |
| Bioreliz | 33 | -3⅜ | -10.2 |
| NobleDrl | 16⅛ | -1⅝ | -8.5 |
| Lyondell P | 14⅛ | -1⅛ | -8.4 |
| Kollmorgen | 12 | -1⅛ | -8.1 |

### NASDAQ TRADING ACTIVITY Volume :1,062,773,000

| ACTIVE STOCKS Monday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| FOREsy | 42,873,100 | 33⅝ | +9⅝ |
| DellCmp | 26,455,600 | 44⅞ | +1⅞ |
| Micsft | 24,082,700 | 88 | +2 |
| 3Com | 20,878,900 | 28⅜ | +⅝ |
| Intel | 18,190,000 | 64⅞ | +2⅞ |
| Oracle | 17,582,800 | 28⅞ | +1⅝ |
| CiscoSys | 11,255,600 | 117⅝ | +⅛ |
| SunMic | 10,412,400 | 65⅞ | +2⅝ |
| NtwkAs | 9,856,800 | 14 | +1⅝ |
| E trade | 9,378,400 | 120 | +15⅞ |

| BIGGEST MOVERS Monday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| FOREsy | 33⅝ | +9⅝ | +37.8 |
| ExcalSw | 23 | +4⅛ | +22.7 |
| AspDev | 11⅝ | +1⅞ | +17.6 |
| Spyglass | 17⅞ | +2⅞ | +16.7 |
| Downs | | | |
| Guitar Cen | 13⅜ | -3⅛ | -19.3 |
| Fd'al Banc | 32⅝ | -7⅛ | -18.1 |
| ClarAccess | 57½ | -7⅞ | -11.8 |
| AmEnt | 11⅛ | -1⅛ | -10.1 |




## JAPAN

| | Apr 27 | Apr 26 | Apr 23 | 1999 High | 1999 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Nikkei 225 | 16957.27 | 16918.51 | 16923.25 | 16957.27 | 13232.74 | 38915.88 | 85.25 |

Day's high 17028.72 Day's low 16804.52

### TOKYO TRADING ACTIVITY Volume : 633,780,000

| ACTIVE STOCKS Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Sakura | 55,712,000 | 443 | +26 |
| FujiBk | 22,031,000 | 878 | +34 |
| NpStl | 14,139,000 | 273 | -4 |
| MitTrB | 11,146,000 | 195 | +13 |
| Kanebo | 9,493,000 | 210 | +25 |
| YasTrB | 9,333,000 | 155 | +12 |
| IndBk | 9,305,000 | 960 | +58 |
| SumMtl | 7,899,000 | 162 | +4 |
| YkhmRb | 7,359,000 | 363 | +31 |
| MitOsk | 7,297,000 | 288 | +17 |

| BIGGEST MOVERS Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| Kanebo | 210 | +25 | +13.5 |
| YrkBen | 4620 | +500 | +12.1 |
| Tsgami | 270 | +27 | +11.1 |
| HtiChm | 1180 | +109 | +10.2 |
| NpShng | 430 | +39 | +10.0 |
| NpLife | 177 | +16 | +9.9 |
| YkhmRb | 363 | +31 | +9.3 |
| Downs | | | |
| Sanshin El | 60 | -30 | -33.3 |

## FRANCE

| | Apr 27 | Apr 26 | Apr 23 | 1999 High | 1999 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| CAC 40 | 4390.92 | 4284.40 | 4262.43 | 4390.92 | 3858.72 | 4390.92 | 984.61 |

Day's high 4395.71 Day's low 4309.30

### PARIS TRADING ACTIVITY Volume : 583,434,800

| ACTIVE STOCKS Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Lgrdr | 1,811,461 | 36.5 | +3.09 |
| FrTele | 1,743,318 | 79.35 | +2.85 |
| Alcatel | 1,224,151 | 31 | +1.09 |
| Axa | 1,020,786 | 121.7 | +5 |
| Rhoult | 973,101 | 38.0 | +1.95 |
| RhonPA | 958,742 | 44.75 | +1.01 |
| Alcal | 904,336 | 121.5 | +4.3 |
| TotalB | 803,222 | 119.6 | +2.7 |
| Usinor | 734,991 | 14.3 | -0.35 |
| EtfAqu | 692,213 | 134.8 | -0.2 |

| BIGGEST MOVERS Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| Synthl | 203 | +17.5 | +9.4 |
| Lgrdr | 36.5 | [illegible] | +9.2 |
| Sanofi | 154.9 | +9.9 | +6.8 |
| Seita | 59.8 | +3.8 | +6.8 |
| Downs | | | |
| Rhodia | 16.7 | -0.64 | -3.7 |
| Imetaq | 108 | -3 | -2.7 |
| GalLaf | 1080 | [illegible] | [illegible] |
| Eramet | 35.1 | -0.9 | -2.5 |

## GERMANY

| | Apr 27 | Apr 26 | Apr 23 | 1999 High | 1999 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| DAX | 5347.50 | 5256.22 | 5195.42 | 5443.82 | 4678.72 | 6171.43 | 931.18 |

Day's high 5359.83 Day's low 5261.56

### FRANKFURT TRADING ACTIVITY Volume : [illegible]

| ACTIVE STOCKS Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Dt Bk | 657,525 | 53.9 | +2.15 |
| BASF | 540,662 | 42.22 | +1.32 |
| Cmmzbk | 403,832 | 30.75 | +0.25 |
| Siemns | 365,677 | 70.7 | |
| Dt Tel | 346,601 | 37.5 | +1.6 |
| Bayer | 335,940 | 40.35 | -0.1 |
| DmlrCh | 334,090 | 94.9 | +0.85 |
| DresBk | [illegible] | [illegible] | +2.7 |
| VW | 198,380 | 71.6 | +2.15 |
| Lufthn | 195,999 | 22.5 | +0.45 |

| BIGGEST MOVERS Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| Hrlltz | 28 | [illegible] | +12 |
| WellaPf | 725 | +72 | +11.0 |
| Dougls | 43.5 | +3.5 | +8.6 |
| DresBk | 41.5 | +2.7 | +7.0 |
| Downs | | | |
| Messa | 76 | -3.5 | -4.4 |
| BEWAG | 14.98 | -0.67 | -4.3 |
| Gldsch | 520 | -20 | -3.7 |
| KSB PF | 137 | -3 | -2.1 |

## UK

| | Apr 27 | Apr 26 | Apr 23 | 1999 High | 1999 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| FTSE 100 | 6593.6 | 6503.6 | 6428.0 | 6593.60 | 5770.20 | 6593.60 | 986.90 |

Day's high 6635.9, Day's low 6503.6

### LONDON TRADING ACTIVITY Volume : 1,089,000,000

| ACTIVE STOCKS Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Centrica | 39,949,670 | [illegible] | +2⅛ |
| Albert Fisher | 35,318,590 | 6 | +1 |
| GEC | 31,305,040 | [illegible] | +51½ |
| ASDA | 22,514,890 | 200½ | +5⅛ |
| Tesco | 21,447,240 | 187⅛ | -3 |
| Brit Aero | 19,630,430 | 465½ | +13½ |
| BT | 16,553,730 | 1089 | +42 |
| Brit T&T | 16,461,240 | 444½ | +11 |
| Invensys | 16,178,310 | 315⅛ | -21¼ |
| BP Amoco | [illegible] | [illegible] | [illegible] |

| BIGGEST MOVERS Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| Bakery Servs | 2⅛ | +½ | +28.6 |
| Ultima Nworks | 3½ | +¾ | +27.3 |
| Tepnel Life | 18½ | +3½ | +23.3 |
| Albert Fisher | 6 | +1 | [illegible] |
| Downs | | | |
| Selector | 2 | -½ | -20 |
| Waverley | 5¼ | -1 | -16 |
| Alliance Res | 7 | -1 | -12.5 |
| Gail Thomson | 42½ | -6 | -12.4 |

## INDEX FUTURES

| S&P 500 | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 1370.00 | 1374.00 | +2.50 | [illegible] | 1363.50 | 65,314 | [illegible] |
| Sep | 1391.50 | 1386.50 | +1.70 | [illegible] | 1377.00 | 127 | 5,684 |
| **Nikkei 225** | **Open** | **Sett price** | **Change** | **High** | **Low** | **Est. vol.** | **Open int.** |
| Jun | 17090.0 | 16990.0 | - | 17100.0 | 16900.0 | [illegible] | 211,761 |
| Sep | 17040.0 | 17000.0 | -100.0 | 17050.0 | 17000.0 | 12 | 6,488 |

Open interest figures for previous day

| CAC-40 (200 x Index) | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Apr | 4310.0 | 4380.0 | +115.0 | 4399.0 | 4297.0 | 122,837 | 95,779 |
| May | 4281.0 | 4364.5 | +115.5 | 4380.5 | 4281.0 | 56,468 | 29,710 |
| **DAX** | | | | | | | |
| Jun | 5308.5 | 5376.5 | +91.5 | 5383.5 | 5268.0 | 62,475 | 326,921 |
| Sep | [illegible] | 5410.5 | +79.5 | [illegible] | 5307.0 | 148 | 3,204 |

| FTSE 100 | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| May | 782.00 | 787.00 | +8.00 | 788.75 | 781.00 | 13,394 | 127,882 |
| Jun | 782.00 | 788.00 | +8.00 | 788.00 | 782.00 | 115 | 536 |
| **Eurotop** | | | | | | | |
| Jun | 7225.0 | 7351.0 | +129.0 | 7375.0 | 7207.0 | [illegible] | 103,167 |
| Sep | [illegible] | 7376.0 | +153.0 | 7387.0 | 7304.0 | 140 | 3,938 |

## WORLD MARKETS AT A GLANCE

| Country | Index | Apr 27 | Apr 26 | Apr 23 | 1999 High | 1999 Low | Yield | P/E |
|---|---|---|---|---|---|---|---|---|
| Argentina | General | 19417.59 | 19483.52 | 19475.34 | [illegible] 21/4 | 14494.80 14/1 | 3.87 | 14.3 |
| Australia | All Ordinaries | 3145.2 | 3129.7 | 3121.7 | 3145.20 27/4 | 2804.80 14/1 | 2.78 | 24.8 |
| | All Mining | 611.5 | 618.5 | 617.8 | 649.19 19/4 | 462.10 12/4 | | |
| Austria | ATX Index | 1272.63 | 1265.12 | 1255.95 | 1272.63 27/4 | 1011.25 22/1 | 2.01 | 13.8 |
| India | BSE Sens. | 3245.27 | 3406.59 | 3784.11 9/3 | [illegible] | 3122.04 | | |
| | S & P CNX 500 | 840.97 | 878.81 | 788.26 31/3 | [illegible] | [illegible] | | |
| Indonesia | Jakarta Comp. | 469.20 | 470.40 | 473.58 | 508.14 15/4 | 372.31 | | |
| Ireland | ISEQ Overall | 5315.81 | 5286.45 | 5327.91 | [illegible] 13/4 | [illegible] | | |

Fourth consecutive record close on back of strong gains in BHP, ANZ and Telstra.

Cardboard maker Mayr-Melnhof in demand after posting healthy 1998 profits figures.

Drifted lower in thinner volumes amid growing investor cautiousness ahead of the June elections.

[illegible]

# THE NASDAQ-AMEX MARKET GROUP

4 pm close April 27

[illegible]

## AMEX

4 pm close April 27

[illegible]

# STOCK MARKETS

## Pick-up in sentiment aids Europe and Asia

**WORLD OVERVIEW**

Equities pushed higher on a broad front yesterday. Wall Street showed renewed vigour in early trading, Paris rose to a record high, and the mood in Asia stayed upbeat, *writes Jeffrey Brown.*

Earnings-driven gains for US equities set the seal on a strong session in Europe, where Paris led the euro-zone pack with a 2.5 per cent advance.

Although it was a record, volumes were far from convincing with just 17.1m shares traded on the benchmark CAC-40 index.

European sentiment has improved significantly over the past month, however. The broad economy remains subdued and the round of downgrades earlier this year remain fresh in the market's memory. Yet it is clear the forecast trend is now showing much greater stability.

Merck Finck make the point that unattractive bond markets are driving liquidity into equities.

Since they still enjoy a decent risk premium, equities "remain the more favourable asset class in a world where inflation might tick up a little", the German private bank says.

Hopes for some good news in France tomorrow, when the latest industrial survey appears, was one of the factors driving shares in Paris. ABN-Amro in its weekly Euro Vision report expects the INSEE survey for April to "show that the recovery in industrial confidence is about to begin".

Asia also continued to attract willing buyers, although the performance charts suggest that market selection is paying an increasingly important role in investors' strategy.

Sydney hit a record for the fourth day running and Seoul is up more than a third in dollar terms this year. On the same dollar basis, Kuala Lumpur and Jakarta have only managed gains of 5 per cent and 9 per cent respectively.

The latest broker to take a more selective approach to the region is BNP Prime Peregrine Securities, which has moved from "underweight" to "overweight" on Malaysian equities. It predicts a liquidity boom for Kuala Lumpur over the next six to nine months.

## Dow climbs despite hi-tech profit-taking

**AMERICAS**

US shares were embroiled in a two-way tussle in early trading. Computer-related shares were hit by profit-taking while blue chips continued to rally, *writes John Labate in New York.*

The Dow Jones Industrial Average, up 100 points in the first hour, was 57.85 ahead at 10,776.44 at midsession. The broader Standard & Poor's 500 index was off less than one point at 1,359.32, after Monday's closing record.

A series of earnings reports helped bolster several Dow stocks. DuPont gained $1⅛ to $68¾ and telecoms leader AT&T rose $⅜ to $53⅝ after both companies reported stronger figures than expected.

Weighing on the blue-chip sector was entertainment company Walt Disney, which slid 5.5 per cent or $1⅞ to $33⅜ after a sharp drop in quarterly earnings.

Cyclical and industrial shares were strong gainers, with Alcoa up 4.8 per cent or $2⅞ to $55⅞. Caterpillar gained $2⅝ to $64⅞ after announcing a large technology agreement.

Toys R Us surged $3⅛ to $23⅞ after the retailer announced a shake-up in its approach to the internet.

Computer-related shares were mostly lower on profit-taking, dragging the Nasdaq composite down 38.77 or 1.46 per cent to 2,613.28.

Software and semiconductor shares were lower, with Microsoft down $3⅛ to $84⅝ and Motorola off $2¾ to $79¾. Networking products leader Cisco Systems was off $3¾ to $114¼.

Against the trend, Apple Computer surged 7 per cent or $3 to $43⅞ after Goldman Sachs added the company to its recommended list. But Dell Computer lost 4.6 per cent or $2⅛ to $42¾.

Small-company shares were lower, sending the Russell 2000 index down less than one point to 434.75. Internet stocks sold off after their strong run on Monday. America Online was the most actively traded stock on the NYSE, down $3¾ to $155¾ ahead of its earnings report, expected after market close.

Online advertising company DoubleClick fell $22⅞ or 13 per cent to $148⅝ after reporting its results. Razorfish soared $16⅞ from its offer price to trade at $32⅞ on the launch of its initial public offering.

TORONTO ran into profit-taking in early trading. The telecommunication sector was the main focus of investor attention and the 300 composite index was off 4.08 at 7,048.00 at noon.

Telecoms backtracked rapidly. BCE lost C$1.65 at C$73.10 and Northern Telecom came off C$3.95 at C$105.60. Among energy leaders, Petro-Canada gave up 20 cents at C$18.85.

Banks were mixed. Toronto-Dominion rose 90 cents to C$80.40, but Royal Bank of Canada shed 50 cents at C$75.10. Canadian Imperial dipped 10 cents to C$38.

In industrials, Alcan Aluminium hardened 70 cents to C$42.60. Golds made a strong start. Barrick rose C$1.40 to C$29.25, while rival gold producer Placer Dome gained 95 cents to C$19.60.

## Central banker's arrest sends São Paulo down

SAO PAULO turned negative as investors continued to digest news of the arrest of Francisco Lopes, former central bank president, late on Monday. Mr Lopes is accused of having leaked information to some banks ahead of the Real's devaluation earlier in the year.

The Bovespa index was 54 or 0.5 per cent lower to 10,744 at midsession, despite a sharp rally in early Wall Street trading.

MEXICO CITY was little changed at midsession as investors refused to follow the lead from New York amid falls in most neighbouring markets. The IPC index was moving sideways, down 0.16 to 5,405.31.

SANTIAGO underperformed the region, shedding 1.99 or 1.7 per cent to 115.73 on the IPSA index as data showed a rise in unemployment this year and a fall in March industrial production.

## Heavyweights help Paris peak

**EUROPE**

Despite a late bout of profit-taking, PARIS managed to hold on to most of its session gains, hitting its first life high this year.

The CAC-40 closed 105.50 or 2.5 per cent higher to 4,390.92, posting the biggest rise in Europe, albeit in subdued trading volumes.

Index heavyweights provided most of the support, with France Telecom continuing to recover, up €2.65 to €79.25.

Renault rose robustly, adding €1.95 or 5.3 per cent to €38.90 after Louis Schweitzer, its chairman, hinted that the company might sell its stake in the troubled truckmaker Nissan Diesel.

Defence stocks were boosted by the military intervention in Kosovo and hopes of renewed merger and acquisition activity in the sector.

Lagardère, due to cede its defence unit to state-controlled Aerospatiale, rose €3.09 or 9.3 per cent to €36.50 while Thomson CSF added €1.05 to €29.30.

Synthelabo and Sanofi rose healthily following a sharp drop last month when the European Commission decided to withdraw its approval for their merger.

Traders said the rise suggested Synthelabo's decision to sell part of its activities may allow the project to go ahead. Sanofi was up €9.90 or 6.8 per cent to €154.90 while Synthelabo advanced €17.50 or 9.4 per cent to €208.

Canal Plus emerged as one of the day's few losers, down €5.70 to €273 after Telecom Italia sold a stake in its pay television operation to News Corp.

FRANKFURT rose 95.69 to 5,364.81 on the Xetra Dax index for a two-day advance of 2.4 per cent.

Banks were a strong market. Dresdner rose €2.74 to €41.39 while Deutsche Bank surged in heavy volumes following the pricing of its €1bn rights issue. The share issue was priced at €50 and the stock ended €2.54 better at €53.95 in 4.6m shares traded.

Elsewhere among the heavyweights, Deutsche Telekom was the subject of mounting speculation that the planned merger with Telecom Italia would eventually be abandoned on regulatory grounds. Telekom jumped €2.01 to €37.90.

Retail giant Metro, which stood at €78.30 earlier this year, bounced €3.62 to €67.88 following a better than expected first-quarter sales report.

Sportswear leader Adidas Salomon gained €5.70 to €95.20. BMW was a rare weak feature among motors, slipping €3.95 to €674.05.

AMSTERDAM ended with the AEX index up 5.63 at 574.41, within one point of its best of the session.

Among mixed financials Aegon managed to drive ahead to €85.25, a gain of €3.30 or 3.9 per cent. Heineken gained €1.60 to €49 and Hoogovens rose €1.40 to €39.55 after a leading broker was said to have turned more positive on steel stocks.

KLM jumped €1.35 or 4.8 per cent to €29.45 on the news that the airline plans to sell its US travel services unit.

Baan came off 65 cents to €7.95 with sentiment ahead of the first-quarter results not helped by talk that the group had lost a KLM contract.

Ahold hardened 30 cents to €35.05 following an upgrade to "add" at Dresdner Bank plus a resurgence of talk that the retailer was poised to announce a sizeable acquisition.

ZURICH was also higher although dealers noted that a rise of 122.6 in the SMI index to 7,377.3 reflected strong demand for selected blue chips and not the broad market.

Banks came back into focus with UBS rising SFr10 to SFr520, trading ex-dividend, and CS Group SFr8 higher at SFr300.50.

Among other financials, Zurich Allied remained a strong performer, adding SFr39 to SFr989 ahead of results for 1998 due on Friday.

Pharmaceuticals, the stars on Monday, continued higher. Roche added to the previous session's 4.3 per cent rise with another of SFr300 to SFr18,150.

The stock was still said to be benefiting from US marketing approval for its potential blockbuster anti-obesity drug, Xenical. Novartis rose SFr38 to SFr2,277.

Swatch Group eased SFr4 to SFr1,005, having run into technical resistance above SFr1,000.

Swisscom, which gained SFr21 on Monday on hopes related to the prospects for its internet business, put on SFr16 to SFr585.

MILAN closed near its highs for the day, boosted by the performance of telecoms and some banks. The Mibtel index registered a rise of 436 or 1.8 per cent at 25,024.

San Paolo-IMI put on 4.2 per cent as the market gave its approval to the bank's decision to withdraw its share swap offer for Banca Di Roma, which was unchanged at €1.59.

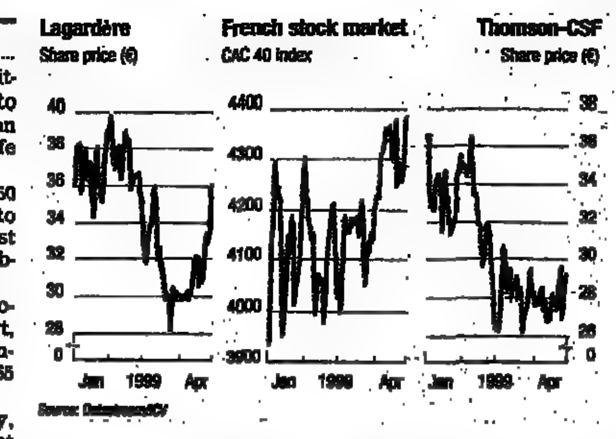
HELSINKI was powered by market behemoth Nokia, whose 2.5 per cent rise sent the HEX index up 123.34 or 1.8 per cent to 5,943.74, posting one of the biggest rises in Europe.

Shares in the telecom equipment company were €2.30 higher to €74.50 on continued optimism following good first-quarter figures released last week.

But overall volumes remained low as investors awaited a batch of company results to be published later in the week, starting with Tieto and Merita Bank today.

Tieto forged €2.25 or 6.3 per cent ahead to €38.05 while Merita added 21 cents to €5.50.

**Written and edited by Michael Morgan, Bertrand Benoit, Peter Hall and Paul Grogan**




**European markets continued to rise yesterday, helped by a strong start on Wall Street and signs that the Serbian leadership was beginning to fracture over Nato's intervention in Kosovo.**

**The FTSE Eurobloc 100 index, which covers leading companies in the euro-zone, closed 26.78 or 2 per cent higher at 1,083.70.**

**The FTSE Eurotop 100, covering countries inside and outside Emu, climbed 49.41 to 3,064.08 while the broader FTSE Eurotop 300 settled 20.16 higher at 1,327.70.**

**For full FTSE European indices see Euro Markets page.**

**Johannesburg was closed yesterday for a public holiday.**

EMERGING MARKET FOCUS

## New optimism lifts Argentina

Industrial production is through the floor, leading companies are struggling to pay their debts, and a prominent local economist has issued a grim warning about Argentina's lack of competitiveness. The outcome of presidential elections in October remains anyone's guess. As for first-quarter company results – frankly it would be better not to ask.

The bad news has come thick and fast, but on the floor of the Buenos Aires stock exchange brokers have a new spring in their step. The Merval index has broken out of the narrow 390-400 trading range it has been stuck in for most of this year to top the 500 level.

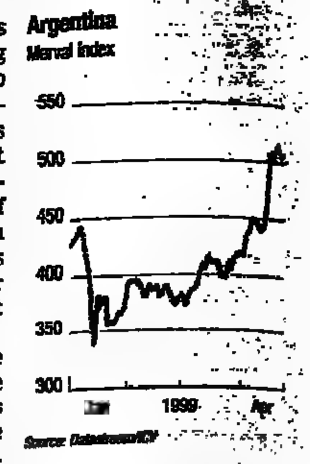
While last week saw some profit-taking, the new mood of cautious optimism has left some stocks with impressive gains. Steel and cement companies have led the way, with a clutch of banks not far behind.

Steelmaker Siderar ended last week more than 100 per cent up on the previous month, while Siderca, which makes seamless tubes for the international oil industry, was up more than 50 per cent.

Have foreign funds come to the rescue of the market, on the back of improving sentiment on Latin America? "I don't believe the foreigners are here yet in a big way," said Christopher Ecclestone of Buenos Aires Trust Co. "The local pension funds had a lot of cash in hand, and it has been going into equities."

The hope is that foreign buyers will be tempted back into Buenos Aires in force. After the recent rally, Argentina is still only catching up with the bigger regional markets. The Merval closed last week up 18 per cent so far this year, against 38 per cent in Mexico.

One of the main positives for the market, apart from the turnaround in sentiment on Brazil, is the improving




oil price, which benefits Merval heavyweights YPF and Perez Companc.

There is also a growing feeling that the worst of the recession may be over. The construction sector in particular has been defying the general gloom.

However, the market has had to discount a lot of bad news to advance even this far. Industrial production fell 11.5 per cent in March, the government announced last week. Leading industrial holding company Sociedad Comercial del Plata shocked the market this month when it failed to meet a $25m bond repayment due to cash-flow problems.

Ricardo López Murphy, an economist linked with the opposition Alliance, created controversy with a stark warning that salaries would have to fall sharply to help re-establish competitiveness after devaluations in Brazil and elsewhere. He added warnings on Argentina's mounting indebtedness.

For now, however, the market appears ready to give more weight to the view that better times are just around the corner. Local analysts agree a period of calm is needed in international markets to consolidate the rally. But a further setback in Brazil would doubtless bring the bears out of hybernation.

**Ken Warn**

## Seoul soars to 30-month high

**ASIA PACIFIC**

Persistent talk of an Asian recovery kept SEOUL surging. The market breached its 1997 pre-crisis level and closed at its highest since late October 1996.

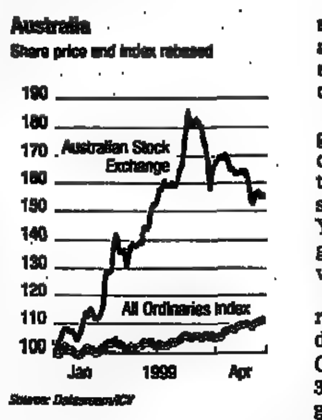
The composite index rose 17.68 or 2.3 per cent to 793.98, powered by abundant liquidity and easing concerns about labour unrest. Volume hit a record Won4,900bn, forcing the exchange to close 30 minutes late.

Buying orders, mainly from foreign investors, concentrated in blue chips. Cheil Jedang closed off its highs at Won70,000, up Won9,000, while Shinhan Bank added Won700 to Won14,950 and Samsung Corp Won2,150 to Won18,100.

TOKYO ended slightly higher after trading in a narrow range, but still closed just short of the 17,000 mark, *writes Bethan Hutton.*

The market was given an early boost by the previous day's rise on Wall Street, but poor retail sales figures released later in the day led to some caution. The Nikkei 225 average finished at 16,957.27, up 38.76, after hitting a high of 17,069.72 shortly after opening, and touching a low of 16,934.52 in the afternoon.

Traders do not expect the market to venture much beyond that range this week




as Japan is winding down for the annual Golden Week cluster of holidays, the first of which is tomorrow.

The Topix index of all first-section shares gained 6.58 to 1,350.42, while the capital-weighted Nikkei 300 improved 1.97 to 270.61. In spite of overall gains, losers outnumbered winners 598 to 575, with 141 unchanged. Trading volume rose to 633m from 563m on Monday.

Banks, brokers and shippers all showed gains but department stores, supermarkets and convenience stores were hit by the retail sales figures, which showed that hopes of a domestic consumption-led recovery were still far from realisation. Retail sales fell 4.3 per cent over the year to end March.

Losers included Mitsukoshi, down Y10 to Y331, Takashimaya, down Y31 to Y991, and Seven Eleven Japan, down Y100 to Y9,830.

Kanebo, the cosmetics group, benefited from news of a raised profit forecast for the last financial year. The shares closed Y25 higher at Y210. In Osaka, the OSE gained 32.94 to 18,236.17 in volume of 27m.

SYDNEY cruised to a record high for the fourth day running with the All Ordinaries index up 15.5 at 3,145.2. Among heavyweight gainers, BHP added 43 cents at A$16.37 and Telstra 23 cents at A$8.47. In banks, ANZ rose 26 cents to A$12.45.

Plans for a A$210m merger with the Sydney futures exchange sent the Australian stock exchange rapidly ahead. It closed up A$1.85 or 14 per cent to A$15.10.

BANGKOK made further strong gains, courtesy of an upbeat session for banks where buying was again heavy on hopes for an early unwinding of the sector's bad-loans position. Brokers said the focus had shifted to second-line banks. Bank of Ayudhya jumped Bt2.50 to Bt16.75.

The benchmark SET index ended 9.65 or 2.3 per cent higher at 425.33 in active turnover of Bt13.1bn.

HONG KONG put on 1.8 per cent as technology-linked stocks drew strength from the overnight Nasdaq record and investors sought out underperformers following the market's rally to 18-month highs. The Hang Seng index rose 237.77 at 13,364.79, off a high of 13,409.99 in solid turnover of HK$9.5bn.

Among the main beneficiaries of the technology buying spree was Wharf (Holdings), which soared HK$2.05 or 11.5 per cent to HK$19.90. Its Hong Kong Cable Television business said on Monday that its cable modem network, a high-speed network allowing speedy access to the internet, would be ready for launch this year.

MANILA saw strong local and foreign demand which offset some profit-taking, allowing the composite index to close comfortably above the 2,400-point barrier.

Investors bought mostly second-line issues as they have already invested heavily in, and taken profits from, blue chips during the previous weeks' rallies.

The index rose 25.38 or 1.1 per cent to close at a 20-month high of 2,420.85.

WELLINGTON rose 34.56 to 2,271.07 on the 40 capital index, helped by a surge at Carter Holt Harvey ahead of next month's earnings release. The stock, up 21 cents at C$2.47, accounted for almost half the gain on the benchmark. NZ Telecom added 13 cents at NZ$9.53.

هكذا من الأصل

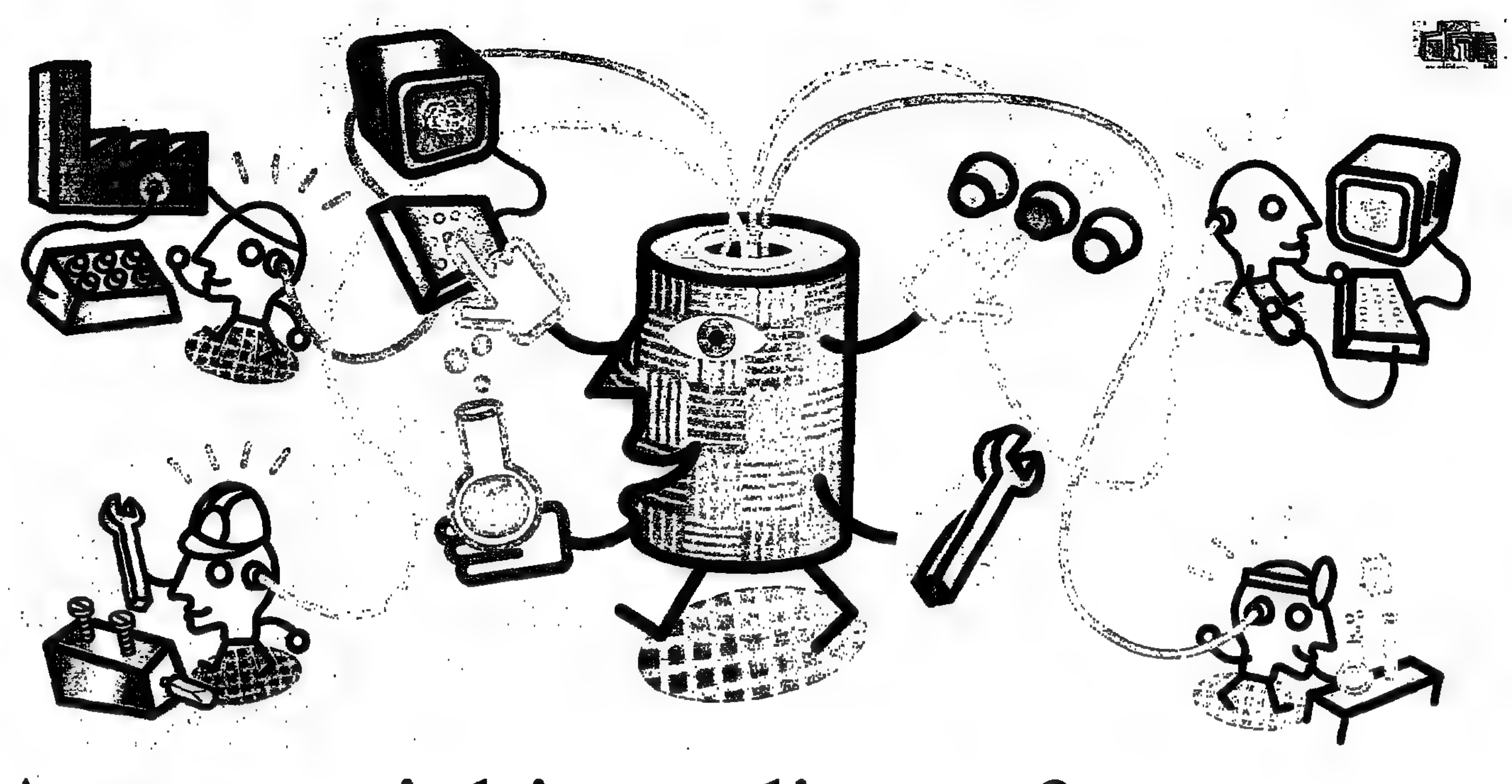


# KNOWLEDGE MANAGEMENT

WEDNESDAY APRIL 28 1999

Business Solutions Series, next issue May 26, 1999





It would be easy to dismiss "knowledge management" as yet another abstract marketing tag that the information technology industry coins regularly to sell more computers, more software and more services.

But while the IT industry is certainly driving the campaign to highlight the benefits of knowledge management, technology is only one of several elements needed to make it work.

In practice, knowledge management requires a combination of many disciplines, from human resources and personnel development to corporate re-engineering and IT.

Technology is, of course, important. Without it, knowledge management would be impossible. IT provides the mechanisms for capturing, storing and retrieving the raw data that form the basis of "knowledge".

The emergence of the web browser and the internet communications infrastructure as standards makes it simple and inexpensive to access data. But while the technology infrastructure has evolved to make knowledge management possible, the real benefits can only come from applying knowledge.

Undoubtedly, it is the potential benefit of applying knowledge management that has attracted the attention of senior executives. A recent survey by PricewaterhouseCoopers in conjunction with the World Economic Forum found that 95 per cent of chief executive officers saw knowledge management as an essential ingredient for the success of their company. Many also admitted that their knowledge management programmes could be improved.

There is good reason. Businesses can only survive and thrive by exploiting every possible advantage in an increasingly competitive market. It follows that any special knowledge that an organisation might have – from ownership of intellectual property in the form of patents and copyrights to special skills and innovative business processes – is an asset worth protecting and nurturing.

Knowledge management is a combination of disciplines and technologies which aims to do exactly this. The disciplines have evolved from several areas, including business process re-engineering and human resource management.

The technologies spring from two main sources: the universal communications medium of the internet and established software technologies such as information retrieval, document management and workflow processing.

This complex pedigree does make knowledge management hard to define – with each area of academia, industry or consultancy offering its own variation. IT people see it as an extension of technologies such as data warehousing and information retrieval. Human resources experts see it as part of re-casting the corporation as the "learning organisation".

And different flavours of consultancy see it as exploitation of "intellectual capital" or the foundation for "knowledge-centric" organisations.

## An essential ingredient of success

*Market pressures and the changing business environment mean that every organisation must exploit its knowledge assets to the full. Some 95 per cent of chief executives believe knowledge management is vital.* **Philip Manchester** reports

John Keane Junior, chief executive of US software company Keane, offers a practical definition:

"Knowledge management means different things to different people. We see it as combining people, process and technology to share information to gain competitive advantage. The only sustainable competitive advantage comes from learning faster than your competitors."

Peter Dorrington, a consultant specialising in knowledge management at international IT services consultancy ECsoft, says: "It's about getting knowledge from those who have it to those who need it."

Philip Crawford, European vice-president of US software group Oracle, offers an even more simple definition: "Knowledge is the information needed to make business decisions."

The truth is that knowledge management covers a wide range of activities with a common theme of sharing information.

At its most primitive, knowledge management can be as simple as writing down contact telephone numbers in Filofax format, photocopying the list and sending it to everyone who needs it.

At its most advanced, knowledge management attempts to encode the unencodable. It sets out to capture the unwritten tricks of the trade which make an organisation function, store them "formally" in a computer database and use them as a corporate resource.

The theory is that once formalised, the knowledge may be tapped by employees to help them do their jobs better and, ultimately, improve the performance of the organisation.

Most organisations are, of course, looking for something between these two extremes. The pressures of the market and the changing business environment mean that every organisation must exploit its knowledge assets to the full. But most would stop short of trying to capture something as intangible as personal judgement.

"It is important to start with business objectives and then see how knowledge can fit in – how it can help meet those objectives," says Elizabeth Lank, knowledge programme director at computer services company ICL.

ICL, part of Japan's Fujitsu, is a keen advocate of knowledge management. In 1997, it helped establish the Strategic Management of Knowledge and Organisational Learning Consortium.

Chaired by Keith Todd, ICL's chief executive, the consortium is composed of senior directors and executives from top companies including Imperial Chemical Industries of the UK, Unilever, the Anglo-Dutch consumer goods group, Switzerland's Ciba Specialty Chemicals, Monsanto, the US life sciences group, and Statoil, Norway's state-owned oil company.

Ms Lank says knowledge management is a challenge that organisations cannot ignore. "Companies cannot afford to ignore the value they have invested in their knowledge assets. We can demystify it and find ways to look after it – but this does not have to be expensive.

"The first step is to recognise that knowledge is not a 'thing' – it is a constant flow. At ICL, for example, we have been working on creating a culture of collaboration which encourages people to share their knowledge."

Over the past decade, ICL has changed from a hardware manufacturing company to a service-based systems integrator and application developer. Ms Lank says that the change has led to a much greater emphasis on knowledge as an asset.

The company's "Cafe Vik" initiative is an example of the practical initiatives that ICL has taken to promote knowledge. "Vik stands for Valuing ICL Knowledge and the idea is to encourage employees to make knowledge visible. Knowledge sits in people's heads and that is where it will stay unless you find ways to bring it out," explains Ms Lank.

Chris Matthias, chairman of consultant Conduit Communications, agrees that cultural change is an essential first step for any company aiming to get the best from knowledge management. But he also acknowledges the important role of technology:

"It is absolutely about culture – and it is also about technology. Technology has a huge role to play in bringing the information together that forms the knowledge base. Obviously, we couldn't get there without it. But it is essential to start with a strategy that brings people, process and technology together – and it must include a programme for cultural change."

Mr Matthias believes that this is often the hardest barrier to overcome: "People do not share their knowledge naturally – in fact we are taught from an early age that sharing is bad. At school, sharing knowledge is called cheating.

"When we start working, we are rewarded for what we know – so we don't want to share knowledge or we lose value. We have to change that culture to get knowledge management to work."

Mr Dorrington of ECsoft also sees the importance of cultural change combined with effective IT. "Knowledge management demands expertise in a lot of different disciplines – job deconstruction from training experts, business process re-engineering – and technology tools have a role to play."

There is certainly no shortage of technology to support knowledge management programmes. The broad base of technology needed to create the infrastructure and application-support tools has attracted a diverse set of operators.

These include big names in the IT world such as Microsoft and IBM; specialists such as Verity, Fulcrum and Excalibur who start from traditional information retrieval; document management specialists such as Documentum, Filenet and Novasoft; and workflow product suppliers such as Staffware and Action Technologies.

Open Text's Livelink is an example of a comprehensive approach – bringing information retrieval, workflow and document management together under a single environment.

Derek Buchanan, UK managing director for Candian-based Open Text, says: "We think the important issue is how you harness technology to make knowledge management more effective. Our approach is to bring the components together behind a web interface to make it easy to access and use."

"If it is difficult to use, then people will struggle to get it to work and become disillusioned."

Mr Crawford of Oracle agrees that accessibility is one of the keys to successful knowledge management and technology is the way to deliver it. "In the past, there was a whole heap of information locked up in the mainframe. Only very few people had access to it and they were not necessarily the decision makers. It was like the days when writing was in the hands of scribes and priests. But the internet is like the dawning of a new era – comparable to the arrival of the printing press. The internet gives access to anyone."

He adds that the key is to apply the knowledge once it has been captured by the technology. "We have spent the last 30 years building up information bases and we could not have got to where we are today without that. But I think we have moved on past the processes that generate information. What is important is what you do with the information. Is it going to bring a business closer to its customers? Is it going to make the business perform better?"

Used properly, knowledge management can provide positive answers to these questions. The trick comes in balancing the technology with all of the other factors – human resources, corporate structure, and organisational processes.

This is not an easy task by any means – but one that no 21st century enterprise can afford to ignore.

**BECOMING A KNOWLEDGE-BASED ORGANISATION** by Nuala Moran

## Knowledge is the key, whatever your sector

*Companies are beginning to understand the need to gain control of their intellectual capital and let staff around the world have access to it*

In the information age, knowledge, rather than physical assets or resources, is the key to competitiveness. This is as true for the obviously knowledge-intensive sectors, such as software or biotechnology, as it is for industrial age manufacturing companies or utilities.

For the knowledge-intensive sectors, knowledge which feeds through from research and development to innovative products and processes is the critical element. But with industrial age manufacturing companies or utilities, using knowledge about customers to improve service is what counts.

What is new about attitudes to knowledge today is the recognition of the need to harness, manage and use it like any other asset. This raises issues not only of appropriate processes and systems, but also of how to account for knowledge in the balance sheet.

David Parlby, partner with the UK consultancy KPMG, says that in future, the value of intellectual capital will be more widely measured and reported. "The measurement and reporting of key performance indicators related to intellectual capital – the value attached to knowledge-based intangible assets – will become a more widespread practice among major organisations, complementing the financial accounts."

Some companies have made a start with this, tracking knowledge-related indicators such as customer satisfaction, staff turnover, market share and attainment of quality targets. Such measures will initially be of more use internally in judging the effectiveness of a company's knowledge management than as information for external analysts. But Mr Parlby says that "in due course, standards for such external reporting will be developed."

Accepting that knowledge is an underused or even misused resource, companies are now turning to knowledge management – to help them know what they know, marshal and exploit it in a systematic way and develop systems for creating and capturing new knowledge.

The job title of chief knowledge officer is starting to appear on the corporate roster as companies begin to understand the need to capture their intellectual capital and let staff around the world have access to it.

The terms "knowledge" and "information" are often used interchangeably. But in considering how to become knowledge-based, it helps to make a distinction between the two. Knowledge is information put to productive use. The issue for companies seeking to capitalise on knowledge then centres on getting the right information, at the right time, to the right people. And although the two are related, knowledge management is not simply an extension of information management. Becoming a knowledge-based company depends on having an IT infrastructure which organises knowledge and makes it easy to use, distribute and share. But it also requires changes to the company culture and to its business processes.

The knowledge store of a company is not limited to the explicit knowledge held in intellectual property portfolios, databases or, increasingly, on the corporate intranet. It also exists in the form of tacit knowledge in the heads of the staff. So companies are increasingly looking for structures that will facilitate the sharing of knowledge among employees.

This is prompting moves towards technologies that support contacts between staff, and so support knowledge generation and sharing. The technologies range from better telephone systems to video-conferencing and groupware.

But being knowledge-based means going beyond the setting up of structures that allow staff to work together by using existing knowledge stores to ways of generating new knowledge. In particular, turning tacit knowledge into explicit knowledge in databases is very challenging, because people must be persuaded to record it. A cultural change is needed to persuade people to input and share knowledge.

Roger Chaddock, associate director at Computer Sciences Corporation, the management consultancy, says: "Obviously there is a set of tools, such as Lotus Notes, intranets, etc which you need to be knowledge-based. But technology is only 20 per cent of the picture. The remaining 80 per cent is people. You have got to get the culture right. Knowledge is power and people have got to want to share it."

Inculcating a desire to share knowledge presents a particular barrier to industrial age companies. "Their culture is wrong," says Mr Chaddock. "Most have hierarchical structures, rather than flat, team-based organisations, and so you don't get the flows of information."

With so many elements to put in place, the question is where and how to begin the move to becoming a knowledge-based company. Elizabeth Lank, responsible for knowledge management at ICL, the computer services company, says it is too difficult and too expensive to change the whole organisation in one go.

She advises pilot projects which will demonstrate the returns of knowledge management. "Don't decide to manage all your knowledge, but decide what knowledge is critical," she says. One example in ICL's case is to keep a record of all the projects it carries out.

"We are involved in a number of electronic commerce projects around the world; we need to share the experience from this globally. At the very least, this will avoid duplication of effort, which is a big win."

Similarly, Friedrich Boch, vice-president at the consultants Arthur D Little, says any knowledge project should start with the question: "What knowledge is relevant for my business?" He then recommends performing a knowledge audit, to map specialisms, research results, and sources of knowledge creation. This prevents duplication and it allows management to take action to acquire "missing" knowledge.

Overall, there is agreement that culture, IT infrastructure, mapping existing knowledge and systematic approaches to the creation of new knowledge are the essential ingredients of becoming knowledge-based. But as yet, there are no standard approaches or off-the-shelf methodologies for companies that want to become knowledge-based.

ICL has worked with companies including Imperial Chemical Industries of the UK, Monsanto, the US life sciences group, Statoil, Norway's state-owned oil company, and Unilever, the Anglo-Dutch consumer goods group, in a consortium set up to help the partners become better at managing from a knowledge perspective.

"The sense you get is that the participants appreciate that knowledge is critical to value and underpins everything they do," says Ms Lank. The challenge is in harnessing something you can't see. Knowledge is a flow, it is about what is in people's heads, rather than what is in a database."

INTERVIEW
**UNIQEMA CKO RICHARD MILLER**

# Global diversity makes his role vital

Uniqema is the speciality chemicals arm of the Imperial Chemical Industries empire. With a minimal headquarters presence in central London and $1bn turnover, Uniqema sells to more than 90 countries with such customers as Roche, the Swiss pharmaceuticals and chemicals group, and Colgate-Palmolive, the US toiletries and personal products company.

Richard Miller joined the Uniqema board with a background in industrial chemicals research in 1993. Today, the expert in soap technology is working as a chief knowledge officer. Mr Miller does not think of knowledge management as a new concept. "The apprentice system of the medieval guilds was a masterpiece of KM but it could only happen on a one-to-one basis," he says.

Mr Miller has noticed that KM tends to be implemented from one of two directions. "Either people come at it from a human resources direction and say it's all about culture, or they believe it is all about IT and using Lotus Notes and databases." He thinks both these approaches are flawed.

"You need to keep both approaches in mind but maintain a balance," he says. He cites a typical KM problem. "Within ICI, one pilot plant had all results from experiments indexed in filing cabinets so unless you knew the experiment by number and date you couldn't find the results. Without the laboratory notebook, the knowledge was locked away."

It became easier and quicker for staff to repeat the experiment than to hunt for the knowledge that ICI possessed but could not distribute. Scanning the results into a computer and associating them with a database meant that the experiments sprang back into life. "It's not a dead archive any more," says Mr Miller.

Bringing an old archive back to life via a computer may be useful, but surely this kind of action takes place every time a company introduces more technology? Mr Miller says this question defines his own job.

"The value of someone like me is that I'm here to worry about issues like this and to bring them to the attention of the business manager."

Part of the need for a formal CKO function comes from the nature of decentralised organisations, says Mr Miller. "If you're focused in groups, it is very difficult to take a bunch of businesses and make KM happen. You need someone to charge around the company and ask questions."

The image of Mr Miller racing about and quizzing managers on their problems is very appropriate to the structure of Uniqema. With 33 manufacturing sites spread across the globe, it competes in 15 specialty chemical sectors. This global diversity is what makes the role of a CKO so vital.

"The basic layer of KM is sharing information when you find people who don't have access to what already exists." He compares the work of the CKO to classical scholars writing footnotes in the margins of ancient manuscripts. "They were enriching the text. We're doing the same thing, but doing it electronically."

The allusions to the past that pepper Mr Miller's conversation are very deliberate. He is determined to locate KM within the real world of knowledge, maintaining a healthy distance from other IT industry trends that last for a year and then vanish. By insisting on practical images to explain his KM work, Mr Miller makes sure his policies are not IT-driven. "We have spent very little on implementing KM," he says. "It accounts for around 5 per cent of our IT budget."

A typical challenge within Uniqema is to keep passing around models of knowledge. Mr Miller says: "If I am looking for a product that will do X for my client, I can go to the internal web site and come back with the nearest prototype to that product. It may be one that was never made into a commercial product but was still compatible with the type of chemistry I want to use."

Given that chemical experiments on the scale of those undertaken by Uniqema can cost hundreds of thousands of dollars, any reduction in experiments soon yields dividends. A chemical plant is a costly investment. Adding experience from different national outlets about best practice in assembling and operating chemical plants, Uniqema is seeking to place its experiments on an internet site that will give Mr Miller an "automated computer beaker". And if this process can be extended to building better plants in less time, then the whole company will benefit from reduced time to market.

A new Uniqema sales force in the Asia-Pacific region has made good use of Mr Miller's KM strategy. Product knowledge is key to the effectiveness of the Uniqema sales executives but Mr Miller thinks the traditional way of spreading this can be improved. "One way to spread product knowledge is to bring them into the centre and train them. Another way is to send out a load of manuals that just line the shelves in an office and are never read."

Uniqema has devised a third approach. "We take an area such as skin-care applications and interview our expert in that field using a standard list of questions. The answers to these questions are then filed on a website that gives salesmen in the field a guided tour around the fundamental issues about the product. The feedback has been very enthusiastic. "They think it's fantastic."

Mr Miller says the users are particularly pleased that they can use the information on the web site to frame questions that are sent directly to the particular expert in the field. He describes the result as giving them "everything you wanted to know but were afraid to ask".

Technology used by Uniqema includes Lotus Notes, a program in a family known as groupware that links up constellations of users working across a network. Mr Miller prefers to keep this software behind the company's internal internet, letting users believe they are only employing internet technology to chase up data. "The web is more intuitive and easier to use," he says.

A text retrieval program called Excalibur is also employed, testimony to Mr Miller's conviction that "any KM strategy must handle paper. Paper is still used in archiving."

Appointed CKO on January 1, he enjoys status within the Uniqema operation equivalent to board membership. Enthusiastic backing from Richard Stillwell, his chief executive, has meant that Mr Miller has plenty of political weight behind his KM crusade. But most important of all, he says that Uniqema staff have never been reluctant to share their time and professional expertise.

"There's no possessiveness about information here. They all know they can be heroes when they have their name on a KM site."

**Michael Dempsey**

**THE ROLE OF THE CHIEF KNOWLEDGE OFFICER** by Michael Dempsey

# Buzzword has already made a lot of enemies

The KM label is disliked by executives and the CKO community is looking for a more attractive terminology to define its role

Knowledge Management may be in vogue as a buzzword, but the term has already made a lot of enemies. Karlheinz Schwuchow, director of knowledge at German consulting group Mummert & Partner, is one.

"I totally agree that it's a buzzword. It's the one that came after the data warehouse!"

Mr Schwuchow is cynical about the way in which KM has become instantly attached to IT spending. "In this case, the technology is pretty much an enabler. You can have the best equipment but if there is no culture of sharing information you still don't have KM."

Some definitions of KM are so wrapped in the obscure language of management consultancy that they verge on the bizarre. US research organisation Gartner Group declares that "a critical success factor for KM is the creation of a co-evolutionary environment, a dynamic state where human systems adaptations and technical systems capabilities progress in concert . . ."

Mr Schwuchow prefers a more helpful approach to the subject. "There are people who say the coffee machine is the best place to look for KM in a company. That's where people meet, share and retrieve information." He has worked with clients such as Commerzbank and Dresdner Bank where the role of chief knowledge officer has been up for discussion.

So how should a CKO function? "It's important to have one person who can take care of knowledge," says Mr Schwuchow, "but it's wrong to create a staff unit and say 'they do knowledge'. The idea of KM must be ingrained in every manager."

Lank: dislikes the KM label so much that she changed her title

Schwuchow: 'Idea of KM must be ingrained in every manager'

Elizabeth Lank has an interesting executive role at Fujitsu-owned UK-based computer services group ICL. Her job title is programme director, mobilising knowledge. She is, in fact, a CKO. But Ms Lank dislikes the KM label so much that she changed her title and the definition of her role to "mobilising knowledge".

Again, she feels that IT can get in the way of her work. "KM gets people thinking about systems and the internet. At ICL, we are very much against this idea of putting the KM label on every information system."

Canadian-born Ms Lank thinks that the Atlantic has created a significant divide in approaches to the KM business. "US companies are technically focused about KM, whereas Europeans think it's about people."

Fresh from a CKO summit in Dublin, Ms Lank says the CKO community is looking for the right terminology to define its role. "In Dublin, there was talk of employees' knowledge being something you rent, not something you buy." The point is that staff own their knowledge and experience. In order to persuade people to share this valuable asset, they need to feel secure about their continued status.

"I find it unrealistic to suggest that we take knowledge from our people. They retain complete control over it." Ms Lank has overseen the creation of Cafe Vik, an ICL Internet site where knowledge is shared on a global scale. "Our staff use it as a kind of map. It tells them who does what in the organisation." Ms Lank devised Cafe Vik after running focus groups within ICL.

Ms Lank modestly describes the formation of Cafe Vik as straightforward, but the result for ICL, an organisation with 26,000 staff that has been through dramatic changes in the past decade, has been almost immediate. "Customers say we are beginning to feel like an integrated company again."

The sceptical mood about KM and the job of a CKO is not confined to large companies such as ICL. Stephen Anderson is a consultant with more than 20 years' experience in the IT industry who works with S-Corp, a small London-based consulting group. He says: "This industry does evolve, but one sees a trend of reinventing the wheel. Ten years ago, knowledge systems were all the rage. So I'm cynical when it comes to the term KM."

However, Mr Anderson does concede that a CKO can bring real benefits. "If you have a lot of human assets floating around, then gaining access to their knowledge can prevent people from repeating the same mistakes and wasting effort. But a CKO is only appropriate for large organisations where there is a role for someone who encourages collaboration."

Canadian telecoms giant Nortel recently took over Bay Networks in the US to form a company with 82,000 staff. The merger only made sense if the knowledge and experience of both organisations could be exploited. Tony Roberts, a senior business performance consultant with Nortel, was put in charge of KM systems for Europe.

"I am trying to use this buzzword KM in a more effective way," he says. But Mr Roberts does not welcome the CKO title. "The problem with CKOs is that they can become a bottleneck. I'm trying to establish knowledge champions within the business units."

Mr Roberts cites the rush to get experience of using the internet to carry telephone calls, a technology known as Internet Protocol (IP) telephony, as an example of KM in action. "We needed to get IP knowledge out of Bay Networks and into the voice area of Nortel. Normally, we'd need someone from Bay to be co-located but now we have virtual teams collaborating over the internet."

Mr Roberts is exploiting software from Canadian company Open Text. Livelink includes a search engine similar to that used by the Yahoo internet service provider and is cheap to use. A project member can follow the progress of colleagues in other locations with the company's internal internet, usually known as an intranet. With 700 staff worldwide, Open Text doubled its revenues to $45m in 1998. If the role of the CKO proves to be more than another temporary trend, Open Text will be an outfit to watch.

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**CULTURE AND ORIGINS** by Rod Newing

# From the ancient Greeks to modern databases

Knowledge management has been studied by philosophers and practised for centuries, but it has always depended heavily on the available technology

Like most things that are "hot" in the world of information technology, knowledge management has been around for some time. The first attempts at knowledge management started with the cuneiform language in about 3,000 BC. Knowledge was inscribed with a stylus in wet clay and then baked. The heating process made capturing knowledge cumbersome, but the tablets made good permanent data stores. However, they lacked portability, limiting the author's ability to share knowledge.

Papyrus was the next innovation in technology in 2,800 BC. By eliminating the baking process, it made capturing knowledge easier and was very portable for sharing. It allowed the building of great libraries, such as those at Sumer, Akkad, Ebla and Alexandria. Parchment became available in 200 BC and paper in 100 AD, but all these three media were easily burned by invading armies, so they were poor at storing knowledge. The solution was to make copies of important documents, often in monasteries, making monks among the first knowledge professionals.

According to David Skyrme, co-author of *Creating the Knowledge-Based Business*, the Greek philosophers Plato, Socrates and Aristotle laid down the foundations of understanding the nature of knowledge and its application in 400 BC.

Socrates challenged traditional thinking and started a tradition of dialogue, while Aristotle encouraged story telling, he says. "They are both methods we are rediscovering in today's business context." Plato's theory was that knowledge must be concerned only with unchangeable and universal objects.

"He was very afraid of books, because he feared that the explicit knowledge they displayed was less testable and less credible than knowledge made explicit orally," says Professor Clive Holtham of London's City University Business School.

"However, as an early management guru, Plato had no hesitation in ignoring his own advice by making his reputation through the written word." Contents pages and indexes started to appear in books in the 12th century, providing the first mechanism for information retrieval.

The invention of the printing press in the 15th century was one of the most important advances in technology, in that knowledge could finally be distributed cheaply and shared widely. In 1605, Francis Bacon's *Advancement of Learning* was published. Bacon believed that knowledge was the fruit of experience and developed a taxonomy of scientific knowledge. Mr Skyrme points out that he also coined the phrase that "knowledge (itself) is power".

A number of modern management writers have advanced the theory of knowledge management. The results include work in Sweden in the late 1980s by Karl Erik Sveiby on the "knowhow company" and Karl Wiig's three-volume work published in 1993-94. Management awareness was raised by Tom Stewart in Fortune magazine, especially his article *Brainpower* in 1991. *The Knowledge-Creating Company* by Ikujiro Nonaka and Hirotaka Takeuchi four years later is another important book on this topic.

None of these modern theorists took much account of IT, however. Computerised databases were the first tools for storing knowledge in the form of data and networks provided a means of sharing it.

The first really useful knowledge management product was Lotus Notes, which was developed to allow people to share information. Users talked of "creating the corporate memory" in their Notes databases long before the term knowledge management was used. In fact, Notes has always included many of the main tools required for knowledge management.

The big consultancy companies were early pioneers of knowledge management, as knowledge is their main product. A series of mergers in their industry created a world-wide network of offices that needed to bring their collective expertise to bear in dealing with clients that were themselves becoming increasingly multi-national. They were all early and big adopters of Lotus Notes.

The invention of the corporate intranet has provided a means of building functionality similar to Notes from a collection of less expensive best-of-breed software using Internet standards. Lotus has adopted internet technology and Microsoft has joined the fray, making knowledge management one of the three scenarios in its "digital nervous system" strategy.

Consultancy has always been important in implementing knowledge management and specialist education centres have been set up, such as the IBM and Lotus Institute for Knowledge Management and Ernst & Young's Knowledge-Based Business Forum.

One of the early lessons learned in implementing Lotus Notes was the need to address cultural barriers to learning and sharing, especially the traditional management enthusiasm for Bacon's concept that knowledge provides them with power.

"Knowledge management isn't about managing knowledge, but about changing your entire business culture and strategy to one that values learning and sharing," says Jon Goldberg, knowledge practice manager at *Conduit Communications*, an IT management consultancy.

"More importantly, the culture must encourage action in matching those who need information with those who can provide it. The culture must encourage the organisation to change the way it acts as a result of the learning."

*Knowledge Management*, a recent report from the Butler Group, a UK-based IT analysis company, points out that the purpose of knowledge management has altered little since the ancient days of clay tablets. It explains that the basic requirements have not changed, only the huge volumes of data, the speed and ease of content changes and the transformation of the workplace.

"Basically, there is not much new under the sun," concludes Mr Skyrme. "However, modern management techniques have resulted in us losing sight of the value for basic human relationships and interaction that lead to trust and better knowledge sharing."

Knowledge management started with cuneiform: women in Iraq clean tablets dating back 4,000 years AP

KM CASE STUDY
CKJE

# Creative solution to fashion industry problem

A relatively cheap and simple-to-use piece of software from software house Orenburg solved CKJE's knowledge management difficulty

Tullio Costagli, a senior director at Calvin Klein Jeanswear Europe (CKJE) in Florence, has to have his finger on the pulse of fashion. It is not enough for Mr Costagli to know what designs are popular on the catwalk this season. He needs to see how the public is reacting to clothing and trends.

"I have to understand what product is the best seller at the moment," he says. This seems like simple information for a modern company to deliver. But extracting it from the empire of the IT department often proves to be a challenge. And Mr Costagli's requirements for data involve the size, colour and pattern of each piece of clothing bearing an item code, not just the general clothing line.

"I have used the central computer system and database," says Mr Costagli, "but it is necessary to understand the whole management reporting process to overcome the problem of getting to central reports."

The answer to his problem lay in a relatively cheap and simple-to-use piece of software from Swiss-Italian software house Orenburg.

For about £45,000 for an installation servicing 50 users, Orenburg will deliver Board, a product that works alongside vast and sophisticated suites of software from large operators such as SAP and Baan, but produces a simplified version of the data they extract from right across a large enterprise such as a manufacturing site.

Orenburg says it has identified a drawback to these impressive suites of software, often referred to as enterprise resource planning programs.

Pietro Ferrari, Orenburg's senior consultant, says: "Large clients may have different flavours of a system. The manager who wants sales data today does not want the underlying structure of that software to prevent him from asking for information that overlaps different issues." He cites the case of a user wanting a quick overview of year 2000 and euro currency issues as an example of the type of overlap that occurs frequently.

Although Orenburg is reluctant to be categorised by the term, Board is very much about data mining. This is the technical ability to dig down into vast repositories of data for nuggets of information that are commercially useful.

The company prefers to position Board as a management tool. In reality, companies such as CKJE or Italian jewellery group Bulgari have bought it to return business knowledge to managers who need it instantly and cannot wait for monthly reports.

In Florence, Mr Costagli has to cope with orders for a large number of fabric types. With Board on his personal computer, he collects sales data, dipping into information held on a large IBM AS400 computer without leaving his simple desktop interface.

The typical user of this system wants an interface that manages a large quantity of data. Board takes data from whatever larger IT system is in place, importing that data around parameters that are stipulated by the IT professionals who install it.

This is not a program that actively hunts data. The technical installation decides in advance what categories the users will see. That suits customers such as Mr Costagli. He only needs to hit a screen icon or wait for a daily import of his information arriving when and how he wants it. He claims to have eliminated a problem that all CKJE managers had – "the same problem of having lots of data but little information."

The installation took 50 project days and is now used throughout CKJE. The plummeting cost of computer processing power and the proliferation of huge software programs have created a hurdle to knowledge management in some companies.

The answer often lies in creative use of small, low-profile products that steer around difficulties that the big IT companies have overlooked.

**Michael Dempsey**

London Fashion Week: Tullio Costagli has to have his finger on the pulse of fashion AP

CASE STUDY
BP AMOCO

# 'Shared learning' from the US Army

BP Amoco took a leaf out of the US Army's book to establish a "shared learning" initiative. The move followed an internal conference in 1994 at which Professor John Henderson from Boston University explained the way the US Army was benefiting from its Centre for Lessons Learned. BP and Amoco recently merged to create one of the world's leading providers of energy and petrochemicals and a small BP steering group identified "spikes of innovative practice" within the company.

"It showed that good things were going on," says Chris Collison, a consultant with BP Amoco's performance processes and learning team. "But they were not common and there was scope to spread them across the organisation. We also discovered that there is no single magic formula that we could learn from another company or a consultancy."

A small central team was established in early 1997 to act as a catalyst and evangelise the benefits throughout the group. It introduced techniques for learning before, during and after an important activity.

"We introduced simple learning processes to help teams to stop, reflect, learn and move on," says Mr Collison.

Before any big new initiative is started, the manager will draw together a group of peers in an open environment. Known as a "peer assist" group, it examines potential solutions in the exploratory phase.

During a project, a continuous learning approach is adopted, employing the US Army's 10-minute "action review". It establishes what was supposed to happen, what actually happened, why was there a difference, and what has been learned.

After the project, a half day or a day of "retrospect" focuses on successes and what could have been done better, and on key lessons to pass on.


BP and Amoco merged to create one of the world's leading providers of energy and petrochemicals

During 1998, members of the team worked with business units. "When we revisited them to find out what effect it had on their business, we had no problem surpassing our target of $100m of added value," says Mr Collison. "The main lesson we learned is the importance of striking the right balance between capturing knowledge and connecting people.

Both of these are achieved through the corporate intranet on which 12,000 people have created their own web pages outlining their expertise and providing links to internal and external sources of information. The company has also invested in desktop video-conferencing that creates "globally available local experts".

Sharing information has been made easier by BP's $200m project to create a common operating environment using Microsoft products. A lot of oil industry work is done by third party contractors and wherever possible, they have access to the same learning systems and tools.

There are strategic tasks that the company repeats within its organisation, such as business restructuring, planned refinery maintenance shut-downs and establishing new business infrastructure. The intranet supports these by capturing such high level information as project plans and budgets, outputs from team events and retrospectives.

The company now makes explicit links to its performance processes. For example, in each stage in approving and monitoring capital projects the project manager must demonstrate learning. Since the merger, the company is twice its original size; effectively a new organisation in which people do not know each other. "We are focusing on connecting people and the intranet is playing a key role in helping the organisation to get to know itself," says Mr Collison. "Fortunately, both companies were already using the same models for learning."

The central team worked with a broader community of 200-300 people in the businesses who did most of the work and the central team is now being devolved back to the business units.

"Shared learning is central to the future of the organisation," concludes Mr Collison. "When people are already working as hard as they can, they need to find a way to work smarter. If we create an organisation where people actively want to learn before they start something, and are keen to ensure the lessons they have learned are passed on, then we are well prepared for the future."

**Rod Newing**

**REAL BUSINESS BENEFITS** by Philip Manchester

# Return on investment is difficult to quantify

The measurement of the value of intellectual capital or knowledge may be one of the key factors for business success in the next century

Knowledge management is a hard concept to define, even for some of its most eager proponents. So it should be no surprise that the task of measuring the business benefits of a knowledge management programme is equally difficult.

*Measuring the Value of Knowledge*, a report by Business Intelligence, the UK research company, sums up the problem in a quote from Philip McPherson, a consultant and emeritus professor of systems engineering and management at London's City University.

"The status of information management is undermined in practice because it is difficult to ascribe value to information and knowledge in conventional accounting terms," he believes.

Business Intelligence's report also states that it found no convincing evidence in its research that organisations performed any genuine analysis on the return on investment of their knowledge management programmes.

The report also notes: "The widening gap between the market and book value of companies (which is over ten times in many knowledge-intensive companies) raises questions about the relevance of traditional measures and accounting methods."

Hard though it may be, the measurement of the value of intellectual capital or knowledge looks set to be one of the key factors for business success in the 21st century.

*Establishing Business Benefit from Knowledge Management*, a briefing paper by management consultancy PA Consulting Group, notes, for example: "It has become conventional wisdom that the organisations that will thrive in the next decade and beyond are those that understand the value of their intellectual assets and work actively to increase the return on those assets."

PA Consulting advocates a "holistic" approach to measurement that establishes the "link between knowledge management and the cost and revenue levers of the business".

The intangible nature of knowledge and its role in enabling a corporation to perform means that the only feasible measures of success tend to be anecdotal.

In the same way that the concept of what knowledge is tends to differ in every corporation, the impact of a knowledge management programme is likely to manifest itself in a number of different ways.

Skandia, a Swedish-based financial services company, is widely acknowledged as one of the pioneers of measuring knowledge and the impact of knowledge management. Starting in 1991 with the appointment of the world's "first director of intellectual capital", Skandia has evolved formal methods for measuring and reporting intellectual capital.

Skandia is using a technique called the Intellectual Capital (IC) Index to try and track the ebb and flow of intellectual capital over time – aimed both at providing managers with an indicator of change, and external analysts with a quantitative measure of company performance.

The results of the project are significant – not the least of them being that Skandia has risen from number 300 to number three in its market sector in just five years.

At the practical level, the project has delivered several benefits from better reporting of its "intangible assets" to shareholders and a redefinition of the role of financial controller to "intellectual capital" controller.

Other organisations have been able to identify different benefits from their knowledge management programmes.

Tony Roberts, senior data management specialist at Nortel Networks, acknowledges the problem of measuring business benefits in his company's installation of Livelink from Canadian-based Open Text.

He goes on to say, however, that some benefits have become apparent: "It is very difficult to assess tangible benefits when implementing a knowledge management strategy, but so far many business benefits have been achieved."

**GM began a transformation with a programme based on the development of 'intellectual leadership'**

Streamlined work processes, reduced foreign travel and reduced e-mail traffic are examples of the benefits which Mr Roberts describes. It has also helped speed up the bureaucracy involved in taking on new employees.

"We have created a process using Livelink's workflow capability where all the departments involved are attributed a task. The hiring manager can initiate the recruitment process and the service request all on the intranet, allowing human resource co-ordinators to track and manage any potential bottlenecks."

The Strategic Management of Knowledge and Organisational Learning Consortium, an industry-wide body with members drawn from many different areas of business, has researched several organisations' experiences of knowledge management programmes. Despite its elusiveness, measurement of business benefits is high on the agenda. General Motors of the US, for example, began a transformation in the early 1990s with a programme based on the development of "intellectual leadership" which aimed to ensure that decisions were market-led and that the environment let people learn from mistakes – either their own or others.

One key element of GM's programme is the inclusion of a formal process where the actual results of decisions are measured and compared to expected results – with built-in processes that allow for changes if the results do not come up to expectations.

Dow Chemical implemented its programme with the specific aim of deriving measurable value from intellectual property.

This involved the "active management" of its patent portfolio to generate new business and also increase licence fees. Following the success of this approach, Dow Chemical says that its focus has since shifted to "know-how", supported by a significant investment in technology infrastructure and tools.

Steelcase, the world's largest office furniture manufacturer, re-positioned itself in a stagnant market by changing its focus, based on better use of its knowledge of productivity in the office environment.

By taking architectural design and ergonomics into account, US-based Steelcase has been able to build more appealing products, improve its market share and generate bigger profits.

Bill Miller, Steelcase's vice-president of research and development, notes: "For us to deliver value to customers, we have to deliver knowledge."



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**DATA CONVERGENCE AND INTELLIGENT AGENTS** by Mark Vernon

# Companies haunted by fate of the ancient mariner

*The key to success will be the ability not only to manipulate data to understand customers, but also to integrate that knowledge into business processes*

Companies today often sit on databases approaching the size of the petabyte, a million billion bytes. But much of this data is unusable, either because it is corrupted or because it is out of reach.

Coleridge wrote: "Water, water everywhere, nor any drop to drink." The question today is: how can corporations irrigate their organisations with the seas of information around them?

The metaphor of desalination is actually an appropriate one. As David Wells, an analyst with research company Ovum, points out, before even thinking about collecting data or applying the wizardry of intelligent agents to provide commercial nourishment, the business of extracting, transforming and locating data – ETL – must be addressed.

"Even with the fanciest technology, if you put garbage in, you get garbage out. ETL is the most important part of the knowledge management process since everything else depends upon it. And yet the task is consistently and seriously underestimated."

Integrating data from a variety of heterogeneous sources is very difficult, if not occasionally impossible. And that is when dealing with structured data from standard applications, never mind genuine multimedia data convergence.

The size of the task is demonstrated by the efforts of the Bank of Scotland. Although a customer management system based upon MicroStrategy products and tools has resulted in a tripling of customer responses to promotions and cost savings of more than 10 per cent on direct marketing and advertising resources, the key to the whole project was data quality.

"I can't emphasise enough the issues of data quality – it is critical to everything we do," says Karen Inglis, head of strategic analysis. "There is no point in having sophisticated models using bad data – you can't profile, score or target without good underlying data sets. We now have a team of twelve just working on data quality and particularly concentrating on our customer information file.

"We also discovered the benefits of prototyping – especially important in getting the users involved in the project so that they feel comfortable with the techniques and experience the benefits first hand."

To this end, the project used workshops, seminars and bulletins to tell people why data was important, and what use could be made of it. Training in data awareness is perceived as a core competency for all staff. However, even if a single source of clean data has been established, another problem looms: how to convert the information to a form that makes sense to the business.

Traditionally, this has been the prerogative of intelligent agents or executive information systems. Andy Mulholland, technology markets director at Cap Gemini, cites the example of a supermarket. "Even if it knew everything about the next 60 customers about to walk through the doors, the information would probably be useless."

Continued on Page 6

**TECHNOLOGIES** by Rod Newing

# Wide range of tools for hot industry issue

*The best knowledge management technology is provided by small niche operators who will struggle to survive if they are pitched against Lotus, Microsoft and the ERP vendors*

Information technology provides a wide range of tools to support knowledge management, covering such areas as creating, identifying, gathering, retrieving, sharing and applying knowledge.

In the same way that many companies were already practising knowledge management long before it emerged as a management issue, so most of these technologies were developed to meet specific information needs rather than to provide a complete solution for knowledge management.

Now that it has emerged as a hot industry issue, every vendor suddenly has a knowledge management product and strategy!

"Organisations need technologies to support four functions processes," says Kathy Harris, research director at Gartner Group, the IT analyst.

"They need traditional explicit information management, as well as collaborative technologies to manage interaction between people. They also need a data management view, in order to organise and store information, combined with an enterprise view for business usage. Knowledge management sits in the middle and integrates all those requirements, which distinguishes it from pure information management."

Creating knowledge is all about innovation and creativity, areas where IT support is difficult to provide. Data mining software is available to locate knowledge hidden in large volumes of structured data, although it is moving to unstructured data. Intelligent agent software, such as Autonomy, is another means of creating knowledge by autonomously analysing data.

Identifying knowledge can be achieved with specialised software tools, such as NetMap, but links on a corporate intranet that point to sources of knowledge can be effective (See BP Amoco case study). The most important area for IT support is in the creation of a "knowledge-base". This used to be a central filing department, but is now a distributed set of knowledge databases. Lotus Notes has always provided this functionality, but it is now just as likely to be stored as part of the corporate intranet.

The knowledge base does not necessarily contain information and knowledge in the same way that a database stores data, but creates links to where it can be found in other places. For instance, references to document management systems will identify a source of manuals, drawings or correspondence. Documents are a good source of knowledge because they give context and interpretative information.

Information retrieval is vital for accessing existing knowledge. However, the value of knowledge is greatest when it is shared and used by others, so collaborative technologies, such as Lotus Notes, Microsoft Exchange, Novell GroupWise and TeamWare are important. Workflow and document management systems are increasingly becoming web-enabled so that the information they contain becomes available as an integral part of the intranet.

Discussion databases and forums that create formal and informal virtual teams are an important means of sharing tacit knowledge. Video and audio conferencing are also important, in that they allow the uncaptured tacit knowledge in people's heads to be made available. Shared application windows are also valuable in helping people to work together and transfer their knowledge.

Expert systems and case-based reasoning are technologies that promised much but failed to deliver. They extract tacit knowledge from a human expert and make it explicit by codifying it and storing it electronically. It is then accessed by less expert users to make a diagnosis of a problem, find a solution or make a decision. The concept was unsuccessful because users found it very time-consuming to extract and codify the knowledge.

Many of the knowledge management vendors are small specialists and there is some consolidation in the market aimed at providing a fully integrated solution. An example is the recently announced merger of Canadian-based Hummingbird's business intelligence tools with PC DOCS document management functionality, which already includes retrieval following its own acquisition of Fulcrum. It follows Open Text's acquisition of Lava Systems and Information Dimensions and other similar transactions.

"To exploit the technology, users need an integrated architecture," says Eric Woods, author of an Ovum report, *Knowledge Management: Applications, Markets and Technologies*. "The architecture is defined, but not yet available. The vendors were slow to pick up, although they are working on it and those who achieve an integrated solution will dominate."

Many users already have knowledge management tools available to them, especially Lotus Notes users. Microsoft products include considerable functionality already, but in May it will announce a new strategy that makes knowledge management one of the three scenarios in its overall "digital nervous system" strategy.

David Parlby, partner for knowledge management at KPMG Consulting, believes that the leading enterprise resource planning vendors are also likely to develop integrated suites of tools for knowledge management. He sees it as a natural development following on from their move into business intelligence, adding collaboration, document management and text retrieval.

"It would be obvious for them to buy up-and-coming knowledge management software providers and integrate them into their product suites," he says. "The research and development will have already been done and they would practice knowledge management by not reinventing the wheel!"

However, Ms Harris believes that Lotus is the leader in knowledge management solutions because of its collaborative capabilities. "Almost all the leading companies that have successfully implemented knowledge management use Notes as part of their solution," she says.

"Microsoft has to be taken very seriously in the long term. At the moment, it has the components, but it has to bring them together into an integrated strategy."

The specialist operators will struggle to survive if they are pitched against Lotus, Microsoft and the enterprise resource planning vendors. The future of the knowledge management market looks remarkably fluid and big upheavals can be expected over the next year or two.

Video and audio conferencing are also important: at a videoconferencing centre in Los Angeles, a bride shows her wedding dress to her father in Mexico City. TVO Communications plans to open 10 videoconferencing centres in southern California and 15 in Mexico AP

**INFORMATION RETRIEVAL** by Rod Newing

# Taking the paranoia out of knowledge acquisition

## Text search engines were originally used by information experts but are now available to inexperienced users. Ease of use and accuracy are the main requirements

The volume of corporate information stored globally doubles every 12 months and is accelerating, according to estimates by Meta Group, the US analyst. As a result, there is a massive amount of information that needs to be retrieved and used.

"It is making people paranoid that there is always something new that they ought to know," says Geoff Smith, manager for knowledge transformation services at Cap Gemini, the European computer services company.

The solution, information retrieval software, was initially developed from US Government-funded projects to automate the process of finding information by reading documents. The Central Intelligence Agency was the first user, followed by the White House, the National Security Council and then other world security agencies and police forces. From there its use soon moved to large corporations.

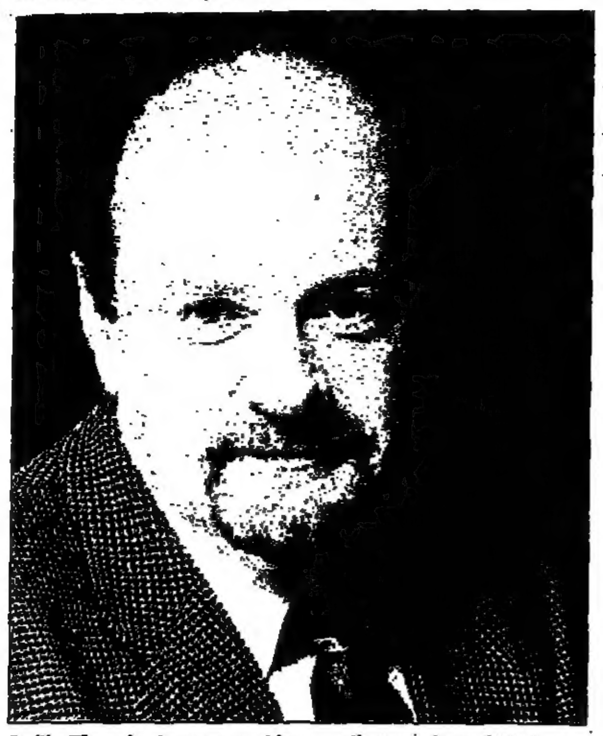
The main established vendors in this area are Dataware, Excalibur, Fulcrum, Open Text and Verity. Their products work with a wide range of file formats, compared with Microsoft's Index Server, Oracle's Context, IBM's Intelligent Text Miner and Lotus Notes search capabilities, which have traditionally worked only with documents in their own formats.

Information retrieval software, also known as "text search engines", was originally used by information experts but is now available to inexperienced users.

Ease of use and accuracy are the main requirements for users to find and apply relevant knowledge rapidly.

"The choice is based on requirements for scalability and the formats to be searched," says Kathy Harris, research director at Gartner Group, the independent analyst. "The five larger, more mature, vendors all have a good track record, appear financially viable, have long experience managing enterprise content and continue to expand their product functionality. They all have different strengths, but they are a safer bet than the many small start-up companies with strong niche technologies."

Andy Bottomley, director of research at Durlacher Corporation, the research-driven investment group, believes that having a large corporate infrastructure is not as important as the ability to integrate with other systems, especially legacy systems.



Smith: 'There is always something new that people ought to know'

"Software Scientific is a fantastic British company that is stealing market share and taking some of the biggest accounts," he says. "IBM internally also has all kinds of good technology it could offer to the market."

Retrieval software essentially carries out the three different functions of indexing, searching and presenting results. Indexing needs to be carried out on the content of the text, the file in which it is held and its metadata, or "data about data". The software can read the content and produce an automatic summary and analyses grammar to find key words that can then be analysed across the document for frequency of use and relationships. As new content is added, indexing is a constant automated task, but documents are never amended and are always left in their original location.

Users traditionally conducted a search through a custom interface, but most now use a browser. Fuzzy logic is used to provide "near to" searches, allowing users to mis-key a word or not know its exact spelling. Natural language queries convert the user's own words into a formal search language. Stem analysis understands word stems and their meanings and proximity analysis understands how close search terms can be in a document.

The software must detect the difference between "stocks and shares" and "stock control", as well as understanding that "customer", "client" and "account" can mean the same thing. It also needs to understand acronyms, so a search on "enterprise resource planning" will pick up all references to "ERP".

Results are usually ranked in order of relevance, sometimes with a short summary of each document. Subject to access security, the software allows documents to be read, printed or even converted into a web page without the user having the application that created them.

Query-by-example can be used to find other similar documents. Users typically want to repeat searches on the same subject as new information becomes available, so searches are stored and refined. Intelligent agents can search new material at pre-defined intervals and some will constantly monitor incoming news feeds.

Searching can also be improved by industry-specific add-ins that provide key vocabulary, such as legal, financial or medical, and multilingual search can be provided. The software can also index named external web sites.

"Internet search services, such as InfoSeek, Lycos and Alta Vista are making a play for enterprise search," says Ms Harris. "They are excellent at automatic intranet indexing and are scalable in terms of speed and size, but they lack content management experience."

Mr Smith believes that the strength of retrieval products is that they sit above various sources and provide the user with an intuitive knowledge map. "They map everything to knowledge content," he says, "rather than to the traditional filing cabinet metaphor of subject and date."

Mr Bottomley believes that Microsoft has the ability to take the bottom out of the retrieval market with Index Server, which is bundled with Site Server as part of an enterprise solution. "It only has limited functionality compared to the main vendors," he says. "However, end-users don't necessarily want all the 'bells and whistles' they offer and we will see retrieval embedded into future versions of Microsoft's desktop software."

However, Microsoft is planning well ahead. "Knowledge management is a big challenge as almost all information is becoming digitised, including text, video, sound and telephony," says Professor Roger Needham, managing director of Microsoft's European research laboratory in Cambridge.

"The organisation's complete memory passes over the same network, but extracting it is a big task because of the variety of data types. Although we have been studying information retrieval for forty years, we still don't know how to do these new types and they need more research."

LOOKING AHEAD

## FT-IT MONTHLY REVIEW

### E-BUSINESS UPDATE

☐ New aspects of electronic business, including case studies of companies successfully applying web technologies, will appear in forthcoming issues of the FT-IT Review, published on the first Wednesday of the month. The next issue appears on May 5, followed by another issue in the Business Solutions Series on May 26, when the theme will be: *Enterprise Resource Planning.*

**MONTHLY THEMES:**

☐ For details of future FT-IT Reviews, including the Business Solutions Series, please use the fax-u-back service on: 08705 209 903. (Callers outside the UK dial exit code: +44 8705 209 903). In the event of problems, send a fax request to Rowena Carr-Allinson on +44 (0)171 873 3197, or e-mail: Rowena.Carr-Allinson@FT.com

**FT SURVEYS PROGRAMME AND INDEX**

☐ *Surveys are published most days of the week with the FT.* Topics include financial markets, global industries, business management and developed and emerging countries. A list of the following week's surveys is published every Monday in the Guide to the Week on the back page of Section Two of the Financial Times.

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# Haunted by fate of the ancient mariner

**Continued from Page 5**

The problem is that there is a "disconnect".

Supermarkets run decision support systems aimed at the store, not at the customer. This technology speaks the language of stock codes and unit volumes, not brand names and the contents of shopping baskets.

To put it a different way, intelligent agents must be able to steer decision-makers through the business, not just pull bar charts out of various databases.

A practical and relatively inexpensive solution has emerged with the growth of internet technologies. The tremendous reach of the web browser – which is generally blind to the differences and distances between systems – has kick-started a new approach.

*Cap Gemini's solution is* manifest in its InfoWeb product, a dynamic browser-based interface that, in terms of the technology, can manipulate data feeds from within and without the organisation and, in terms of the business, displays results that make commercial sense.

Another advantage that internet technology has brought is its focus on content.

This can be exploited for knowledge management purposes in the shape of the intelligent search engine.

Ernst & Young is one company moving along this route. With a wealth of information already in place, supply was not the issue for the professional services group.

It was the demand side of the information equation that created the barriers.

John Beattie, director of program management at E&Y, says: "Our problem was how to navigate our vast knowledge resources to find the information we needed. In other words, decentralised content storage, but centralised knowledge management so that users would have a universal user interface – for example, a web browser – to search across all our knowledge bases and web sites without having to know where the content is located."

Search and retrieval technology from Verity has delivered this functionality, as well as intelligent sorting and classifying search results in context.

Mr Beattie says: "An E&Y IT consultant can tap our knowledge base for information on SAP software implementation in the manufacturing industry and get immediate access to the best practices on SAP implementations in that particular environment, rather than have to hop around to pull relevant information together or make endless phone calls to other professionals."

The company that will win in the future will be the one that can not only manipulate data to understand customers, but can then also integrate that knowledge into its business processes.

*Stuart Feldman, director* of IBM's Institute for Advanced Commerce, says:

"I see you like this product, but how can I exploit that fact.

"If you buy one book from me, I don't want to then just flash a best seller up on the screen as a next suggestion – I want to offer a book by the same author you have not read or another book on a related subject. That is much harder because real customisation is a very subtle business.

"Certain technologies are getting there, but there is lots of learning and analysis to do."

*Until then organisations* will be haunted by the fate of the ancient mariner.

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CASE STUDY
AIRBUS AND KTI'S ICAD

# Knowledge-based techniques speed aircraft design

*Despite advances in computer-aided design (Cad), the development of a new aircraft still depends on a vast body of written and unwritten rules on how an aircraft design will behave once it leaves the drawing board.*

This *human knowledge* is difficult to capture using conventional Cad programs which concentrate on automating the drafting process and so have little *inherent "understanding"* of how the components drawn on the screen will interact with others in the overall design – or how the complete system will behave *in the air*.

As aircraft become more sophisticated, the design challenges grow and the development time increases.

There is, therefore, considerable interest in using knowledge-based techniques to supplement traditional Cad-based automation and shorten the design process.

A good example is the forthcoming Airbus A340-600, a stretched fuselage version of the existing Airbus long-haul A340-300 aircraft. This new version of the A340 is designed to accommodate 380 passengers compared with 295 in an A340-300 aircraft.

The four European aerospace companies that make up the Airbus consortium hope the extra capacity of the A340-600 *will break the monopoly of* Boeing's 747 on busy long-haul routes.

*In the race to build bigger* aircraft, Airbus knows it has a small window of opportunity – the first A340-600 must be delivered in early 2002 – so it is pulling out all the stops to reduce the design cycle and meet its delivery targets.

The Airbus consortium members are applying the principles of knowledge-based engineering (KBE) to shorten design times and have standardised on a commercial software package, called ICad, from the UK company Knowledge Technologies International.

According to Keith Watson, chief marketing officer at KTI, the ICad software goes way beyond the capabilities of a conventional Cad system. It allows designers to link geometric definitions to the knowledge base of their experts and information such as product rules, performance data, legislative and safety codes and design and manufacturing "best practice".

British Aerospace (BAe) is an established ICad user. It designs the wings of the Airbus aircraft and is also responsible for producing one of the two additional fuselage sections that are used to "stretch" the 150-seat A320 aircraft into the 185-seat version, called the A321.

KBE is much in vogue in the engineering industry and the term is widely used and abused. To engineers at BAe, KBE covers two essential features: "generative modelling" or the ability *to create engineering* models that understand how to create themselves; and *"total product modelling"*, meaning models that include everything of interest to the business.

Using the ICad software, BAe engineers have created applications that combine these two important features.

The software came into its own when the wings of the new A340-600 were designed. The internal structure of a wing consists of ribs – which run from the front to back of the wing – and stringers, which run along its length. The wing skin is bolted to each rib and stringer using a flange on the rib called a rib foot.

In a large aircraft wing, there can be more than 50 ribs and 100 stringers, and hence a lot of rib feet. These all look much the same but each rib foot is slightly different from its neighbour.

Using conventional Cad software, it takes at least a day to design and analyse each rib foot. On the A340-600, it would have therefore taken one man-year to design and analyse all the feet.

Using ICad, BAe created a program to generate the Cad model for the rib feet. This KBE application took 800 man-hours to create and can do the entire A340-600 wing in just 10 hours.

*The use of ICad is being extended to all Airbus partners.*

*Spanish aerospace* company Casa, which makes the composite tails for the A340, became the last of the four Airbus members to adopt ICad earlier this year.

Smaller Airbus contractors are also discovering the benefits of KBE. For example, Latécoère, a small French company based in Toulouse, last year started to employ ICad software to automate and optimise the sizing of the panels and frames it supplies to the Airbus.

Despite the apparent simplicity of the technique, stretching an aircraft fuselage to accommodate more seats has repercussions on the whole aircraft structure.

"It's not as simple as simply scaling up our existing designs," says Thierry Eftymiades, Airbus project manager at Latécoère. "The aircraft is longer, there is more load and the stresses throughout the aircraft change."

For this reason, the fuselage panels that Latécoère made for the A340 had to be heavily redesigned for the new A340-600.

With a traditional Cad-based approach, this would have involved a draughtsman resizing each *part using* Cadds5, the company's standard Cad program, and much repetitive testing using a structural analysis program.

Cadds5 was developed by Computervision, now part of Parametric Technology.

"Cadds5 is like a sophisticated drawing board and you need a draughtsman in front of the machine using it for the software to be productive," says Mr Eftymiades.

"With ICad, you simply define the different set of design rules and the software automatically draws the components itself."

He sees ICad as most effective on repetitive tasks, such as drawing the stringers in the panels. "The design of a plane needs an awful lot of iteration."

Each time a stringer is modified slightly, this changes the stress on surrounding stringers and the stress pattern across the whole panel will change.

The ICad software is used to automatically perform these stress calculations.

Using the ICad software, Latécoère claims to have saved hundreds of man hours on every iteration and hopes to apply it to other projects outside its Airbus work.

**Geoffrey Nairn**

Engineers employ computer-aided design in the Airbus A340-500/-600 design office at Filton in Bristol, England, where wings for new aircraft are designed. British Aerospace Airbus is responsible for design and manufacture of wings for all Airbus aircraft

CASE STUDY
VENTANA

# Help at hand for those who recoil from meetings

*Anyone who has fidgeted,* snoozed or doodled frustratedly through *meetings – and there can be* few in business who have not – would welcome the chance to make them shorter or abolish them.

But while many meetings take too long, are subject to rambling discussions or end inconclusively, it is hard to do without them. Technology can, however, help to ensure that the accumulated knowledge of those attending meetings is channelled swiftly in the right direction.

Ten years ago, a company was set up in the US to offer solutions aimed at cutting through the fog of argument, uncertainty and indecision in meetings and making them far more productive. Today, Arizona-based Ventana has corporate, military, academic and government clients across the globe.

Since meetings generally *have a goal, it is important* that the assembled knowledge is used to best effect. Ventana's GroupSystems suite of team-based decision support and software tools – based on academic research into the way people behave, think and collaborate – is designed to cut out the time-wasting and ego posturing that blights many meetings.

"I was 15 years in a business environment and the biggest waste of time was meetings," says Clive Holtham, who is professor of information management at the City University Business School in London.

He is now an enthusiastic advocate of electronic meetings, which the business school uses for internal research planning, as part of its management training courses and in executive education. "It's more than a technology *– it's a way of working* differently," he says of the Ventana products. "You *could say it's a way of* re-engineering meetings."

People in GroupSystems-enabled meetings generally work with laptops linked in a local area network. Usually, participants sit in the same room, though they can be in different locations. An agenda appears on the screen and ideas are keyed in anonymously.

The assembled views and data can be analysed on the spot, organised into categories and voted upon. Results can be viewed at once in chart and table form.

Users of GroupSystems have recorded impressive savings. In the US, Chevron Pipe Line put a team on to analysing procurement services and found the electronic meeting method enabled this to be done in half the time of a traditional meeting. It saved about $5m a year.

Eastman Chemical halved the time needed for brainstorming and problem solving sessions with GroupSystems. After buying its first licence to use the system, it calculated a yearly saving of more than $500,000 for 12 people.

Yet whatever the benefits, it is not always easy to encourage new users. There are considerable cultural obstacles against introducing technology into meetings.

Bob Dudley, head of operational review at National Grid, the UK electricity transmission company, says implementation of GroupSystems requires a culture change.

"In traditional meetings, people's contributions are filtered, depending on the role of the individual.

"In GroupSystems-enabled meetings, you're dealing *with the inherent merit of the* ideas. Because it's anonymous, the relationship *between the person* and the idea is broken. It can come as a shock."

*National Grid uses the* system to support risk management, its business *excellence programme* (involving quality reviews and suggestions) and the gathering of information for audit work. Mr Dudley stresses the importance of both technical and facilitation skills.

When National Grid sets up an electronic meeting, two specialists are on hand. One handles the technology, while the facilitator takes people through the agenda, canvasses opinions and assesses the results – all electronically.

"The structure and output of the *meeting* must be thought about beforehand," Mr Dudley says. While the technology speeds up the *meeting,* the quality of the result is heavily dependent on the facilitator's skills.

In Mr Holtham's view, *GroupSystems works best* when participants are broadly agreed on the *objectives. "It won't work if* there is immense conflict in the group. There has to be a *certain measure of common* agreement."

A few years ago, a common source of resistance was the fact that some executives were "keyboard illiterate". This is no longer the case.

"Now, the resistance is more from the fact that those who are fantastic in face-to-face meetings can be hostile to something that potentially democratises the meeting. This can upset the traditional politics of the meeting."

**Andrew Fisher**

CASE STUDY
GRANADA MEDIA

# New system helps speed up search for TV footage

Accessing programme information at Granada Media, the television arm of Granada Group in the UK, used to require a good memory or lots of phone calls. But a new knowledge management system is making it easier to track down footage and sell it.

Ian Whitfield, Granada Media's head of IT development, says: "I noticed I was getting lots of requests for access to documents, such as programme scripts and synopses. So I started to look around and see what products were available.

"Often when sales people were responding to an inquiry, they had to call the library, find out what footage the company had, then go and have a look at it to see if it was suitable.

"Another complication is that film reels are stored in different places because Granada acquired Tyne Tees Television, LWT and Yorkshire Television. It also owns Granada Sky Broadcasting and 50 per cent of OnDigital."

Sometimes, sales were lost if footage could not be found quickly. Rights information is also relevant to each sale and sales and rights staff needed to find out what royalties and restrictions were involved in reselling a particular programme and whether it would be profitable to do so.

Mr Whitfield chose ActiveIntranet from UK-based Orbera for document management. The database is now accessible via the company's intranet from several different sites. Documents such as programme scripts and production information are stored in this way and are available to company staff.

While he was developing the document database, Mr Whitfield also started work on a database of programme synopses. For this he chose Excalibur's RetrievalWare.

The advantage of RetrievalWare is that it automatically indexes documents, such as the programme synopses. It does so by pattern matching, looking at a digitised version of the keyword typed in by the user – for example, "Gadaffi" – then trying to find words with a similar pattern. This means that even if the user misspells "Gadaffi" as "Gadaffy", the synopses of all the programmes in which he appears will still be displayed.

Similarly, if the programme synopsis includes a wrong or alternative spelling of Gadaffi, it will not be excluded from the list of items retrieved. It will also look for related concepts.

Gathering together all the synopses was a huge task because they exist in different forms and formats. For example, there is a rights synopsis and a synopsis put together by the programme makers. Each focuses on different aspects of the same programme.

Some synopses were typed up, others were on scraps of paper and some only existed in the head of a TV producer or director. So over the past three months, Granada Media has employed students to type up the synopses on 70,000 programmes. This exercise is nearly complete.

Users can now search the database using any word. For example, if they wanted to look for all programmes that featured actor and comedian Robbie Coltrane, they could type in his name. This would bring up a list of 370 items featuring him.

Easily located: Robbie Coltrane, star of the 'Cracker' TV series

Alternatively, if the researcher was simply interested in episodes of the detective series *Cracker* in which he appears, they could type "Cracker". This would give the researcher a choice of looking at synopses at the programme or series level, at the episode level, at the production level, or by member of the cast or production team. (There can be more productions than episodes because a different version may be made for, say, an overseas market such as the Middle East where bad language is not allowed on air.)

Along with the synopsis are details of other documents about the programme, such as a reference for the appropriate rights document, contract or full script. The user can then go to the document management database and look up the relevant document – or if it is not yet on the database, call the correct department.

The synopsis database is being tested by 60-70 people in rights, sales and in the programme libraries. "We are now rolling it out to the programme researchers," says Mr Whitfield. "Enthusiasm for it is phenomenal."

The benefits include the speed and convenience of finding information. To call up a list of 531 programmes featuring the Spice Girls takes less than a minute.

"The cost of the system is in the tens of thousands [of pounds]," says Mr Whitfield. "We got a good price because we helped Excalibur to customise the system for a media application like ours." The system will eventually be introduced to most people in the company.

Mr Whitfield says that with RetrievalWare it is easy to add new categories of information. For example, he plans to add the library number of each TV reel to the synopsis information to make it even faster to track down tapes.

Granada Media is not using Excalibur's video product yet because of the huge quantity of storage space it would require to store video images. However, he says: "In three to five years, it should be feasible for the company to store each frame in a digitised video sequence where there is a major change – such as a character moving or another person entering.

"A description of the key players and events could be written underneath by using speech recognition to draw information from the soundtrack. This would make searching for footage even faster for the extract sales team."

Mr Whitfield says: "There is going to be even greater demand for existing footage as digital television boosts the number of TV channels and demand for programming.

**Joia Shillingford**

**THE INTERNET AND KM** by Tom Foremski

# Net enables companies to filter flood of information

## Web-based business applications can bring together knowledge management functions with e-commerce and e-business applications

The internet is having a great effect on how companies handle their knowledge management requirements as they make use of inexpensive internet-based technologies to develop applications that can turn a flood of information into useful knowledge.

By using standard, web browser-like interfaces, companies have a wide range of options in terms of using internet-based software or more expensive groupware applications to link corporate databases with web-based resources.

The main challenge, however, is deciding which options to use and how to organise the information and collect it in the most effective way. And as companies build their web presence and use it to interact increasingly with customers, additional challenges surface in how to manage that relationship.

Terry Wilcox, managing director of Silknet Software UK, a vendor of knowledge management software, says: "Today, more and more consumers are turning to the internet to interact with companies. In this environment, companies are finding it increasingly difficult to know who their customers are and to offer the personalised service that these customers still demand.

"The companies that are ahead of the game are using knowledge management to keep track of their individual customers' personal preferences, buying patterns and service needs."

Silknet provides a range of web-based business applications that can be used for bringing together knowledge management functions with e-commerce and e-business applications.

The internet is also rapidly becoming the main communications medium for linking users of groupware products such as those from US-based IBM subsidiary Lotus Development and US software company Novell with its Groupwise product. Lotus, for example, has added a raft of internet-related features in a big upgrade to its groupware products in Release 5 of Notes and the Domino server.

Notes R5 uses a familiar web browser-like navigation model which saves on user training costs. Features include Notes R5 Headlines, a page that brings together corporate information with information from outside web sites.

Lotus Domino R5 Server software allows corporations to host collaborative web-based business applications such as those for customer relationship management, interactive self-service, and supply chain management.

Michele Deziel, Lotus's general manager of web application development, says: "With R5, we have improved our highly productive development environment to offer a leading edge, standards-based toolset which broadens the scope and decreases the time to market for global collaborative web applications."

Knowledge management has a very broad definition and although it includes well known applications such as Lotus Notes and Domino, it can also be represented through applications such as corporate intranets which use internet technologies to link staff and give them access to key information, and also allow companies to capture knowledge from their staff.

The natural progression here is the development of corporate portals that bring together the internal intranets with the knowledge resources available on the internet.

Corporate portals combine corporate information with web-based sources of information and e-mail in one window. Corporate portals are similar, in these respects, to the leading portal web sites such as Yahoo and Excite but are tailored for a company's staff.

US market research company Delphi Group predicts a big rise in the building and the use of corporate portals over the next two years within large so-called Global 2000 corporations.

Hadley Reynolds, Delphi's director of research, says: "Portal development is a necessary second stage in the maturing of corporate intranets and an indicator of the tremendous promise of this medium inside the organisation.

It is transparent now that the rapid spread of intranets has initially perpetuated the challenges of information silos, bottlenecks, and backlogs that were the problems in the first place."

Delphi's research shows that 55 per cent of organisations surveyed have portal projects under way. Another 17 per cent had production sites up and running at the beginning of 1999, while 38 per cent are evaluating, planning, or piloting portal implementations.

Corporations which do not currently have portal work under way plan to deploy portals late this year and next year.

Delphi expects that by the beginning of 2001, nearly 90 per cent of larger organisations will have moved into portal deployments, with 80 per cent showing corporate portals in production mode.

The next step beyond corporate intranets and portals is to actively manage the information generated and turn that information into knowledge that is useful to the corporation. Consultancy Cap Gemini, based in France, has developed a concept which it calls an "Everybody Information System" (EIS) where the goal is to control what can quickly become a glut of information and automatically tailor it to the needs of specific staff members.

Geoff Smith, Cap Gemini business manager for knowledge transformation services, says: "EIS is like the perfect hostess, tirelessly going round the party with the observation that 'You really must talk to Mr X, you have so much in common!'

"It is going to take some getting used to, having an electronic gossip listening in on your every word, but if we accept that we need to constantly build new knowledge-based relationships that add value, then staying in the kitchen at the global info party is no longer going to be acceptable."

Other companies believe that effective knowledge management revolves around the creation of specialised web sites targeting key industry segments.

*UK-based JBA Holdings*, an enterprise software company, has helped sponsor several portal web sites that focus on specific industry segments such as the clothing and footwear and vehicle industries.

Mike Gove, electronic marketing manager at JBA, says: "With integrated marketing, attraction and involvement of branded partners and management of quality information, portal sites will soon be recognised as the ideal channel for industry knowledge management.

"The vertical sector sites will be shaped by the industries' needs and wants and therefore will be able to provide information that is relevant, easily accessible and in real-time. The future of portals sites is optimistic. I can not see how any company can afford not to be involved or linked to an industry-specific portal site."



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